

SOCIAL ENTREPRENEURSHIP: AN APPROACH TO DEVELOPMENT IN MEXICO

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TC 660H  
Plan II Honors Program  
The University of Texas at Austin

December 8<sup>th</sup>, 2020

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## **Abstract**

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This thesis is a two-part investigation of the benefits and obstacles of social entrepreneurship in Mexico. It will initially identify and discuss two issues preventing social and economic development, and propose that existing social enterprises have succeeded in addressing those issues. Then, it will examine how certain political, economic, social, and technological (PEST) factors in Mexico have inhibited social entrepreneurship, and propose how educational institutions can act as vehicles to overcome those obstacles. Specifically, I investigate how one university, the Instituto Tecnológico y de Estudios Superiores de Monterrey (Tec), approaches expanding opportunities for social entrepreneurship in Mexico in order to examine how the integration of social entrepreneurship into curricular and non-curricular programs promotes the development of social entrepreneurs and allows them to overcome environmental obstacles in their way.

My thesis seeks to address the following two questions: 1) can social entrepreneurship promote socioeconomic development in Mexico, and 2) how can entrepreneurs overcome obstacles to the creation of social enterprises? I will rely on primary sources from government websites, research data, and news articles for information regarding the recent state of the social entrepreneurship environment in Mexico. I will also incorporate findings from secondary sources published by scholars who have asked similar questions regarding social entrepreneurship, entrepreneurship education, and social entrepreneurship in Mexico. Combining this information will present a detailed investigation of certain aspects in the general sphere of social entrepreneurship in Mexico. To complement my work, I will also include a case study I documented from an informational interview about a social enterprise born from Tec programs to show an illustrative example of a successfully launched social enterprise.

This thesis serves to help the reader better understand what it means to be a social entrepreneur in Mexico, and why social entrepreneurship is necessary in a country facing many issues on a path to development. It also encourages further research of additional barriers to social entrepreneurship in Mexico, different programs available to promote social entrepreneurship, and the sustainability of established social enterprises.

## **Acknowledgements**

I would like to express my gratitude to Professor Dennis Passovoy for his patience and guidance throughout this process. His constant support and expertise helped me navigate a well-developed approach to this thesis. Additionally, Dr. Stephanie Holmsten helped teach me how to discuss complex, international topics through framing and perspective techniques. Her tendency to spur further thoughts regarding established ideas allowed me to produce work with greater depth.

I would also like to show my appreciation for my family and friends, who have also greatly supported me throughout the completion of this thesis. To my parents, I would not be where I am today without your love and care for me. I also want to thank all of my friends that read sections of my thesis, attended the thesis symposium, and showered me with encouragement. I couldn't have done it without you all!

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## Introduction

Social entrepreneurship has been a topic of growing interest in recent decades as people around the world look for innovative solutions to fill gaps in the political, economic, and social sectors of their society. Developing countries, which are often especially deficient in these sectors, could benefit from citizens taking an active role to address these gaps. However, there is a concern that such countries are disadvantaged when promoting social entrepreneurship because they lack the necessary environment for the successful creation of social enterprises. Mexico is among the developing countries that could benefit in this way.

Mexico is an upper-middle income country that is still classified as a developing country given its GNI per capita of \$9,673USD in 2018<sup>44</sup>. Despite this relatively high ranking among middle income countries, it still has concerning issues that need to be addressed. For example, the poverty rates have not significantly improved in the past decade, with over 40% of the population classified as impoverished from 2008-2018<sup>43</sup>. The lack of betterment relating to poverty suggests that Mexico must take a new approach to handling certain ‘old’ issues in order to increase its economic status—and thus develop as a country.

There are many different approaches available for a country looking for support (i.e. international organizations), but there is strength associated with an intranational movement for development. Working within a country avoids the issues associated with the *savior complex*, such as reliance on others for continued support. Further, it promotes self-reliance and perpetuates an innovative and resourceful country for future challenges. For these reasons, Mexico should consider national expansion of opportunities for social entrepreneurship.

## *Methodology*

My thesis explores social entrepreneurship in Mexico. I investigate this topic in two dimensions: 1) whether social entrepreneurship promote socioeconomic development in Mexico, and 2) how entrepreneurs can overcome obstacles to the creation of social enterprises. This project focuses on a national perspective of Mexico. The organizational structure of the thesis and research methods used are described in the following paragraphs.

The first dimension investigated the problems Mexico was facing that blocked the country's development. To do this, I chose two issues from the United Nations' list of 17 Sustainable Development Goals because those goals are presented as factors that need to be addressed by every country. The two goals related to poverty and clean water. Then, social entrepreneurship was presented as a concept (in general) and a solution to the issues via two small case study examples.

For this investigation, I relied heavily on primary sources from Mexico's governmental database containing census information for the country, and other supporting documents from the site that helped interpret numerical data. I also used secondary sources to develop a better understanding of how poverty and clean water affected a country and its development to supplement the primary sources. When discussing social entrepreneurship in theory and as a solution, I used a variety of secondary sources that defined *entrepreneurship* and constructed a mixed-definition of the term for a holistic understanding of the vast subject and its vagueness. The case studies were found after discussing examples of social enterprises with a co-author of a book about successful social enterprises that tackle the issues of focus. The second dimension investigated the obstacles to social entrepreneurship that are present in Mexico, and a possible solution to those obstacles through university curricular and non-



curricular programs. This section began with an overview of social entrepreneurship in Mexico, and how it compared to that of other countries for a better perspective of the environment. A PEST analysis was then conducted to understand the political, economic, social, and technological factors that affected the environment for social entrepreneurship in Mexico. In the analysis, I explained how each factor related to the creation of a social enterprise so that the obstacles to creation would be clearly stated. Following this, I presented an explanation of how a university could overcome these obstacles facing the general public in their attempt to create a social enterprise. I focus on two specific programs in the university, one non-curricular incubator program and one curricular practicum course. At the end, I present a case study to illustrate an example of how a social enterprise forms as a result of both of these programs available through the university.

For this section of the thesis, I relied on both primary and secondary sources. To find the overview of entrepreneurship in Mexico I utilized primary source data from the World Bank Group, OECD, GEM, SII, and other such global comparison databases. I also utilized primary sources from the government databases and census information, as well as new articles and speeches by government employees, to support evidence for the obstacles to entrepreneurship. In presenting the ‘university-approach’ solution, I analyzed many sources for the university I focused on, Tec, from its websites and well as informal interviews with students and faculty from the university. In doing this, I was guided to the information necessary which allowed me to create an overview of the two programs noted above. In providing a theoretical approach for context of an entrepreneurship education, I reviewed a limited number of secondary sources from research journals on ‘entrepreneurial education’ that discussed why and how such programs are beneficial.

### *Importance*

This thesis focuses on a topic—social entrepreneurship—that is rapidly gaining recognition but has little research published. Social entrepreneurship is similar, yet importantly distinct, from traditional entrepreneurship. One cannot grow accustomed to applying the research and theories of traditional entrepreneurship in a social context and remain content. For instance, the metrics used to determine the outcomes and impacts of a social enterprise differ from those for a traditional for-profit enterprise. Social entrepreneurship demands a greater focus, and a more detailed understanding of what works and what doesn't so that this solution with great potential can effectively evolve. Additionally, the sources utilized to discuss social entrepreneurship are mostly written by and for 'developed' countries, which may not accurately reflect the conditions of developing countries.

The application of social entrepreneurship in developing countries can prove to be a strong tool for economic and social development. These countries often do not yet have a grasp on how to handle certain issues they face, which can perpetuate their status as a 'developing' country<sup>32</sup>. The potential for large-scale social enterprises to have a positive impact on these countries is promising. While this thesis largely focuses on young social entrepreneurs addressing local issues, which can eventually spur a national impact, it is unlikely that these early-generation social entrepreneurs will change the course of the entire country.

The single-country approach to this issue is also significant in realizing that there are countries facing issues that may be unknown to other parts of the world. The information from this thesis explores aspects of a country that are distinct from those of other countries, and it helps put the issues of a developing country into perspective. I believe that it is important to recognize that Mexico is not simply 'falling behind' economically, socially, and technologically

because it refuses to develop, but rather it is happening because it does not face a nation-wide situation that promotes growth.

## Chapter 1: Obstacles to Development in Mexico

Before discussing how social entrepreneurship can promote development in Mexico, it is important to understand the conditions of the country that necessitate action. This chapter provides a description of two prevalent issues affecting Mexico's society and economy, as analyzed from 2000-2019. The following factors are not exhaustive of all the obstacles that Mexico faces to facilitate economic and social development. Due to the space constraints of this paper, even the factors discussed warrant further exploration.

The selection of factors was made from a list of 17 global challenges identified by the United Nations (UN) as Sustainable Development Goals (SDGs). The SDGs include factors that the UN believes should be addressed by every country in order to ensure a better future for the world<sup>1</sup>. While the SDGs are common issues found in many, if not all countries, the approach with which each country plans to address any given issue will ultimately vary.

Many issues impact the socioeconomic well-being of Mexico. According to *Ecosistema de Innovación Social en México* the prevailing issues include poverty, social inequality, education, and health<sup>2</sup>. For this reason, and because of my familiarity with the issues, the two SDGs I will present in the following analysis are 1) no poverty and 2) clean water and sanitation. These SDGs focus issues relating to poverty and health. Detailing their existence in Mexico's economic, political, and social environment will provide context for why Mexico is not able to develop to its full potential and why the country continues to exist as a 'developing' country<sup>30</sup>.

An analysis of these two SDGs will provide the information necessary to understand how social enterprises can form to address these issues. It is not the case that any one social enterprise

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<sup>1</sup> "Take Action for the Sustainable Development Goals – United Nations Sustainable Development." United Nations. United Nations. Accessed November 8, 2020.

<sup>2</sup> Atrizco, Víctor Hugo Guadarrama, and Alicia Acosta Long. *Ecosistema De Innovación Social En México*. Ciudad de México, Estado de México: Foro Consultivo Científico y Tecnológico, AC., 2017.

will have the ability to every factor of poverty or provide clean water to every household; but as long as an aspect of these issues are addressed, there is potential for the enterprise to have a positive outcome.

### *Poverty*

According to the United Nations, ‘no poverty’ means that a country has inclusive economic growth that will “provide sustainable jobs and promote equality.”<sup>3</sup> People living in situations of poverty often lack access to basic needs, such as healthcare and education. The existence of poverty is often tied to unemployment, social exclusion, and the vulnerability of a population<sup>4</sup>. Even people who have jobs can find themselves living in severe poverty due to extremely low wages.

On average, Mexico experienced a higher level of income inequality than 36 other countries between 2015-2019, only surpassed by Chile, Costa Rica, and South Africa<sup>5</sup>. Income inequality is measured by the Gini Coefficient, where 0 indicates perfect equality and 1 indicates perfect inequality; economists consider a Gini Coefficient over 0.4 to indicate a big income gap. The Gini Coefficient values for the 32 states in Mexico (including Mexico City—a federal district), on average, indicate big income gaps in 2018<sup>6</sup>. The significant deviation from a perfectly equal distribution supports the idea that income inequality is an area of concern.

There is often a correlation between income inequality and poverty. While the relationship between the two is not fully understood, there are trends and patterns that suggest similarities in factors that stimulate their perpetuation, including social, spatial, political, and

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<sup>3</sup> “Take Action for the Sustainable Development Goals”

<sup>4</sup> Ibid.

<sup>5</sup> See Appendix A

<sup>6</sup> See Appendix B

criminal aspects<sup>7</sup>. Socially, both income inequality and poverty may be incorrectly attributed to the fault of an individual. In such cases, poverty may be justified by reasoning that it is deliberate or self-inflicted. From the spatial aspect, segregation of the haves and the have-nots conserves the divide of 'inequality'. This divide is increased when the gap between what individuals at different economic levels can afford results in the distinction between better and worse access to education, healthcare, and so on. Politically, wealthier people take positions of power and thus continue to provide representation that benefits the economically well-off. These social, spatial, and political aspects that lead to increased income inequality and poverty levels can lead to situations in which crime, as a means to equality, becomes appealing to those who are economically disadvantaged. Additionally, a greater presence of violence in the country might also be expected due to the lack of unity among the increasingly polar opposite economic groups in society. This correlation of income inequality and poverty explains why both factors are required in conjunction to fully understand the social, political, and economic ramifications of perpetuating poverty levels.

Statistics on levels of poverty in Mexico claim that there were approximately 52,425,887 people (42% of the total population) living in poverty in 2018<sup>8</sup>. This datum is provided by the National Council for Evaluation of Social Development Policy (CONEVAL), an autonomous organization tasked with measuring poverty levels in Mexico and evaluating the social programs in place to address this situation. The CONEVAL recognizes three distinct categories of poverty through a multidimensional measurement: 1) basic poverty, in which there exists at least one social deprivation; 2) moderate poverty, in which just enough funding for basic needs exists with

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<sup>7</sup> McKnight, Abigail. "How Are Inequality and Poverty Linked?" Lecture presented at the UN expert meeting: New Research on Inequality and Its Impacts, September 2018.

<sup>8</sup> "Anexo Estadístico Entidades 2008-2018," 2019.

multiple social deprivations; and 3) extreme poverty in which all of the income is insufficient for basic needs with three or more social deprivations<sup>9</sup>. Social deprivations limit a person's ability to integrate into society. According to Article 36 of the 2004 *Ley General de Desarrollo Social* (General Law of Social Development), or LGDS, the 6 social deprivation factors are access to basic education, access to health services, access to social security, access to quality housing, access to basic housing services (i.e. water, electricity, etc.), and access to food<sup>10</sup>. Thus, in situations of extreme poverty, an individual experiences half or more of the total social deficiencies considered when measuring poverty. Poverty levels are subject to fluctuations based on the betterment or worsening of any of these factors.

Being able to distinguish between different degrees of poverty—basic, moderate, and extreme—is beneficial in determining the ease with which the issue might be addressed. Situations of basic poverty should be easier to resolve than situations of moderate and extreme poverty given that the basic needs have been satisfied and there are fewer social deficiencies present. In 2018, only 7% of the Mexican population was living in extreme poverty<sup>11</sup>. However, this relatively low statistic did not account for the other 28% of the population living below the national poverty line. Therefore, 35% of the total population was suffering from at least one social deficiency and lacking funding for basic needs. This combined statistic indicates a fault in the government's ability to effectively provide its citizens with the assistance necessary to rise out of poverty.

Figure 1 provides a visual representation of the percentage of people living in the two degrees of poverty which are thought of in the traditional sense of the word—moderate and

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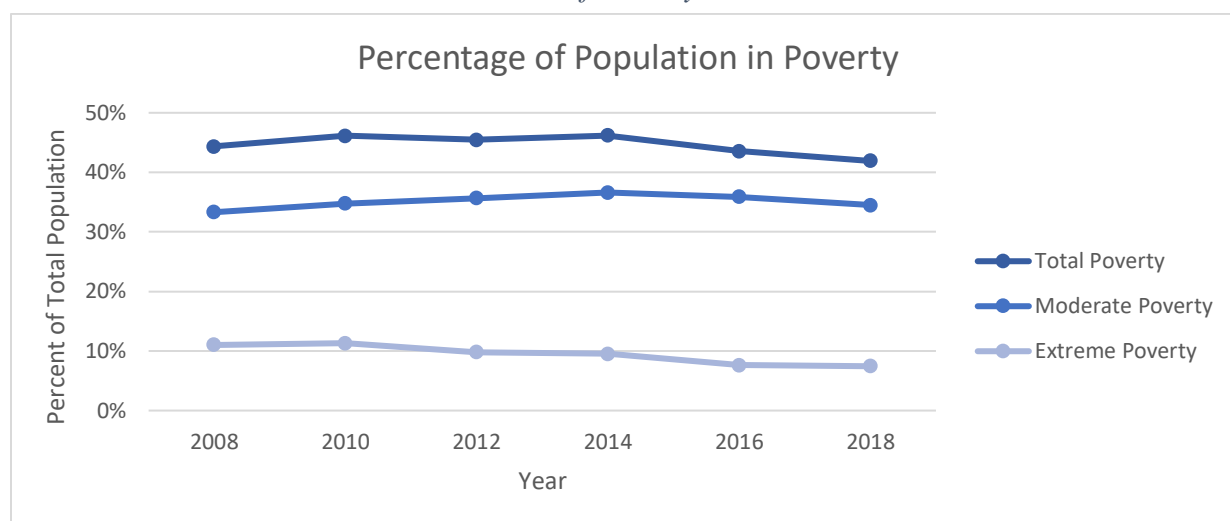
<sup>9</sup> Ibid.

<sup>10</sup> Secretaría de Servicios Parlamentarios, *Ley General De Desarrollo Social*. (2004).

<sup>11</sup> “Anexo Estadístico Entidades 2008-2018”

extreme. Basic levels of poverty, for purposes of the data, are discounted because the social deficiencies within that portion of the population are not significant enough to result in the deprivation of a basic need.

*Figure 1: The Percentage of the Mexican Population Living in a Situation of Poverty*



Source: own elaboration of data from “Anexo Estadístico Entidades 2008-2018”

The data from Figure 1 indicates that levels of moderate and extreme poverty have remained quite steady from 2008-2018, with a slight decrease in the total percentage of people in poverty. This may indicate that efforts to address poverty through social or political means have not been very effective. The CONEVAL database suggests that these statistics about poverty are necessary for a public understanding of the country’s circumstances and also to direct governmental action on how and where to address the issue.

The persistent levels of moderate and extreme poverty suggest that Mexico is in need of new, real solutions. Social entrepreneurship could promote the development of new and innovative ways for dealing with the social deprivations affecting the impoverished population.

Currently, one of the most common ways to address a socioeconomic issue is through governmental strategies and programs. Economic policies that were implemented in the early



2000s led to the creation of new social programs as a result of the economic crisis of the 1980s, when devaluation of the peso, very high inflation rates, bad handling of public finances, and increased levels of poverty left the country in one of its worst economic conditions<sup>12</sup>. *Poverty Reduction Approaches in Mexico since 1950* analyzes the effects that certain social programs had on reducing poverty. In an effort to create and maintain these programs, the Mexican government spent increasing amounts of money from 1995-2007. One such program was the *Programa de Education, Salud y Alimentation*, also known as OPORTUNIDADES, which provided support for 25 million people (approximately 25% of the population) living in extreme cases of poverty by providing cash payments to support education, health, and nutrition<sup>13</sup>. This program and others similar to it were created with the same motivation to reduce poverty by providing money to help alleviate certain social needs.

The reduction of poverty due to the implementation of these social programs is not clearly related to the effectiveness of money transfer social programs, as opposed to other confounding factors. Regardless of the effectiveness in reducing poverty, two problems with such social programs are that 1) conditional transfers may be avoided by families who refuse to meet certain conditions, and 2) transfers to the poor can reduce productivity and economic growth<sup>14</sup>. OPORTUNIDADES, for example, stipulates that children need to be in school to qualify for a money transfer, but some families refuse to give up the source of income provided by working children. Additionally, people who work in the formal sector of the economy are eligible for social security benefits, while those who are self-employed or work in the informal sector qualify for social benefits from government programs. Workers in the formal sector may

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<sup>12</sup> Rodríguez, Oscar Javier Cárdenas. "Poverty Reduction Approaches in Mexico since 1950: Public Spending for Social Programs and Economic Competitiveness Programs." *Journal of Business Ethics* 88 (2009): 269-81.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

feel motivated to find less productive, lower-paying jobs in order to receive social benefits at a lower ‘price’ in terms of energy expenditure<sup>15</sup>. In summation, while there are benefits associated with social programs that attempt to address poverty, those programs might also indirectly perpetuate the percentage of the population in poverty.

Poverty is still a pressing issue in Mexico that continues to inhibit economic and social development in Mexico. To increase Mexico’s worldly competitiveness, the issues relating to poverty must be addressed, and there must be a way to ensure that a greater percentage of the population has access to basic needs and suffers little to no social deprivations. With high levels of poverty, it is unlikely that Mexico will be able to compete with other countries that have a lower percentage of their population living in poverty. Logically, increasing the economic competitiveness will, in turn, create more jobs and improve wages so that poverty levels will continue to fall and therefore, promote a developed economy. This project will continue to explore whether, and how social entrepreneurship can be a means to achieve development in Mexico.

### *Clean Water and Sanitation*

The United Nations’ list of 17 Sustainable Development Goals includes clean water because of its role in providing a necessary component to life. Access to “water, sanitation, and hygiene” is a human right, and as such, it should be available to everyone<sup>16</sup>. This has become an increasingly global issue as many countries begin to experience a scarcity of clean water. When most of the planet is filled with water that is not safe to drink or use, finding sources of clean water becomes an issue of survival both in terms of medical sanitation and drinkability. To

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<sup>15</sup> Ibid.

<sup>16</sup> “Take Action for the Sustainable Development Goals”

address these issues, it is important for governments to allocate sufficient funding and resources towards water research and development. Successfully addressing this SDG related to clean water and sanitation will require a significant amount of government action given that public pipes account for a large source of water<sup>17</sup>. A major step towards progression for the country and water justice advocates occurred in 2012, when Mexico recognized both clean water and sanitation as a human right in its constitution<sup>18</sup>.

However, Mexico continues to face a variety of challenges relating to clean water and sanitation. In 2016, out of the 32,900,000 homes in Mexico, 68% of them received clean water daily via public pipelines, 13% received clean water at least every third day, and the remaining 19% received clean water scarcely if at all<sup>19</sup>. This data is assumed to be complete, given that it is derived from a governmental census, but it could leave a percentage of the population that lacks a constant, reliable source of clean water unaccounted for.

Access to water from a household increased from 88% of households in 2010 to 94.4% in 2015. This increased access to water, however, does not guarantee that the entire population can rely on the source as drinking water<sup>20</sup>. In fact, access to *water* and access to *drinking water* need to be distinguished when discussing access to water in Mexico. This is because water supplied to households might be unclean and therefore unsafe<sup>21</sup>. In many cases, Mexicans choose to turn to the bottled water industry, or bottled delivery trucks as a safer source to water. Because of this, Mexicans can spend around 20% of their income on water<sup>22</sup>.

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<sup>17</sup> Ibid.

<sup>18</sup> Meehan, Katie. Water Justice and the Law in Latin America. Latin American Research Review, 2019

<sup>19</sup> “Objetivo De Desarrollo Sostenible 6: Agua Limpia y Saneamiento.” Web log. Objetivo De Desarrollo Sostenible 6: Agua Limpia y Saneamiento (blog). Gobierno de Mexico, September 11, 2017.

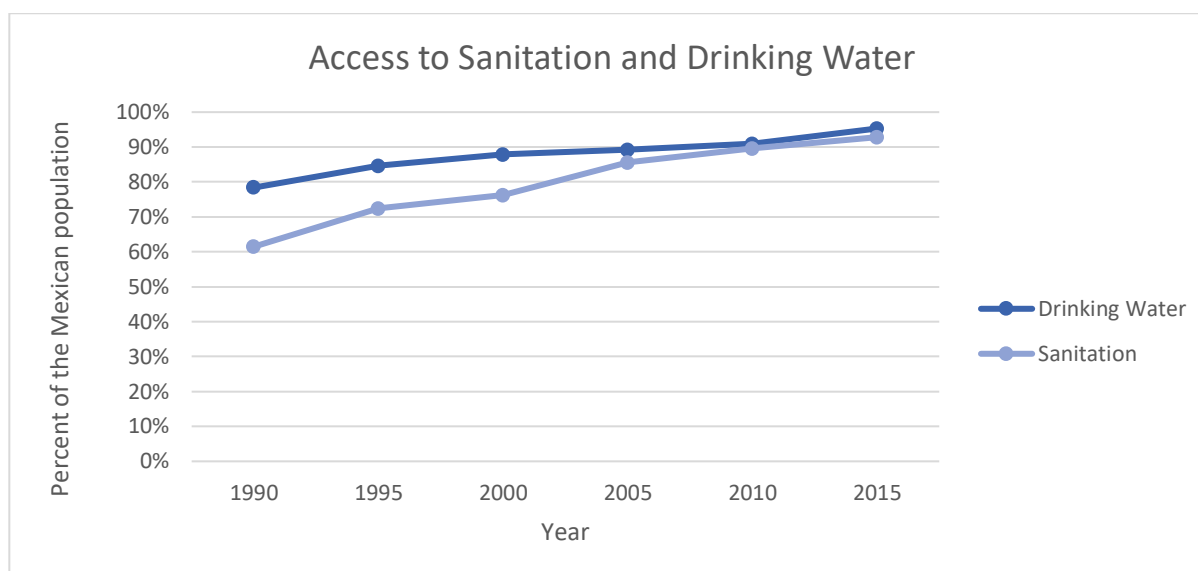
<sup>20</sup> “Porcentaje De Población Que Cuenta Con Servicio De Agua Entubada En Su Hogar,” 2019.

<sup>21</sup> Mexico City’s Water Supply: Improving the Outlook for Sustainability. Washington, D.C.: National Academy Press, 1995.

<sup>22</sup> Watts, Jonathan. “Mexico City’s Water Crisis – from Source to Sewer.” The Guardian. Guardian News and Media, November 12, 2015.

Additionally, there is an added difference between *sanitation* and *drinking water*, which is evident in the varied use of water for each respective scenario. Drinking water is consumed for nourishment. Sanitation, on the other hand, suggests access to a drain connected to the public sewage system or to a septic tank. Figure 2 shows the distinction between access to sanitation and drinking water further indicating that they are distinct.

*Figure 2: The Percentage of the Mexican Population with Access to Sanitation and Drinking Water*



Source: own elaboration of data from “Porcentaje de población que cuenta con servicio de agua entubada en su hogar”

According to a blog on the Mexican government’s website, the inadequate sanitation of water results in costs of up to \$5,800,000 a year in additional healthcare costs<sup>23</sup>. Poor sanitation, therefore, does not only impact society’s ability to function effectively, but also has an economic cost that could be used elsewhere.

The government has a duty to improve systems for the collection, purification, conduction, storage, and distribution of drinking water. Without ensuring this basic human right, it could be hard for the affected population to work, receive an education, maintain good health,

<sup>23</sup> “Objetivo De Desarrollo Sostenible 6: Agua Limpia y Saneamiento”

and participate in activities that involve relying on a reliable source of clean water. If such water is not provided, the economic and social stagnation keep the country from developing to be more competitive globally. To promote the advancement of Mexico's upper-middle economic status to the next bracket of high-income economies, much more of the economy needs to be mobilized.

One thing that hinders the government's ability to supply clean water to more remote and rural regions in Mexico is the cost of distribution; but this does not mean that no attempts have been made to address the issue. The government has attempted to address these issues in two notable ways. The first is the *Ley de Aguas Nacionales* (Law of National Waters) (1992), which promotes water management in areas that have hydrological basins by monitoring rivers from their origin in the mountains, to their release into the ocean<sup>24</sup>. The other way is a six-step program that ensures water safety and sustainability known as PNH (*Programa Nacional Hidrico*). Enacted from 2014-2018, this program involves the implementation of sustainable and integrated management techniques, such as increasing protection from floods and droughts, strengthening the supply of water, increasing the science and technology devoted to the sector, ensuring a supply of water for economic and financial activities, and motivating effort on an individual level for all citizens of Mexico.

While it is clear that these governmental attempts to address the issue have not succeeded in eliminating the problem, there is potential for a new approach to supplement these programs well. One approach offers the effectiveness of social entrepreneurship, which will be discussed further in the next chapter.

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<sup>24</sup> Ibid.

## Chapter 2: Social Entrepreneurship

When considering an approach to address the 17 UN SDGs in Mexico, I believe that social entrepreneurship brings sustainable and innovative solutions. While *entrepreneurship* is not a new process, *social entrepreneurship* is relatively new. The research and analysis of social entrepreneurship is not very developed as of yet. However, the sources that are currently available seem to suggest great potential for the application of doing business for a social cause, especially in regions exploring new ways to address economic and social issues. Keeping in mind the challenges Mexico faces, particularly those of poverty and access to water mentioned in the previous chapter, I will propose an explanation of what *social entrepreneurship* is and how social enterprises can help address the challenges Mexico faces to socioeconomic development.

### *Defining Entrepreneurship*

Fundamental to the development of a discussion on social entrepreneurship is a common understanding of what the term *entrepreneurship* means. Many definitions of entrepreneurship have emerged as a result of the term's evolving application. This thesis will piece together essential characteristics from each definition in order to derive a single definition to be used throughout the paper.

In 1775, economist Richard Cantillon first defined the term by stating that entrepreneurship was the use of “business perspectives in a situation of uncertainty”<sup>25</sup>. Cantillon suggested that *risk* was a defining characteristic of entrepreneurial pursuits. Later, in 1936, economist Joseph Schumpeter introduced the idea that entrepreneurship involved making an effective use of resources<sup>26</sup>. Schumpeter de-emphasized the notion of risk in entrepreneurship in favor of focusing on the creation of efficiency through reform and invention. Underlying the

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<sup>25</sup> Portales, Luis. “Social Innovation and Social Entrepreneurship,” 2019.

<sup>26</sup> Ibid.

differences of Cantillon's and Schumpeter's definitions is the formation of value that results from the process of entrepreneurship. Whether it be due to the successful use of a business perspective, or the reformation of an inefficient process, the value of entrepreneurship results from a change in a system, product, or process that is made for the better. Borrowing from both Cantillon's and Schumpeter's ideas, the definition of entrepreneurship this paper will use will be the following: *the use of inventions and/or innovation to crease value through increased efficiency in situations of uncertainty.*

### *Distinguishing Social Entrepreneurship from Traditional Entrepreneurship*

Broadly speaking, entrepreneurship takes two main forms. The one that likely comes to mind when considering entrepreneurship in general, is *traditional* entrepreneurship. A traditional enterprise has a profit-making objective, and strives for market success. Often, traditional entrepreneurs use innovation, or invent a product or service that is distinct to what is currently available in the market (i.e. by price, features, etc.). They have a desire to take advantage of opportunities with the goal of having high profit margins, so as to generate wealth. Success, in a traditional enterprise, can be measured quantitatively using data such as profits, sales, number of customers, or a combination of these factors.

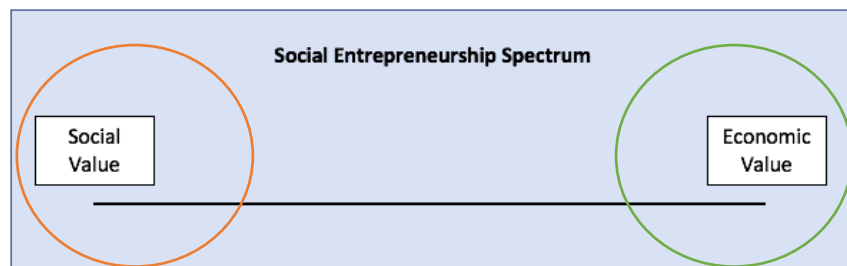
*Social* entrepreneurs, on the other hand, have a central objective involving the creation of *social value*. While the difference in objectives exists, traditional and social entrepreneurs are not always easily differentiated. Kerry Krige, from the Network for Social Entrepreneurs at the Gordon Institute of Business Science, offers a social entrepreneurship spectrum to explain the fluidity of labeling an enterprise as 'social' as opposed to 'traditional'<sup>27</sup>.

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<sup>27</sup> *The Future Is Social Entrepreneurship. YouTube. TEDxJohannesburgSalon, 2016.*

Figure 3 depicts two extremes for the spectrum, one in which the enterprise completely generates social value (i.e. nonprofits) or one in which it completely generates economic value (i.e. for-profits). Most enterprises tend to fall somewhere within this spectrum. The placement of an enterprise at any given position in the spectrum utilizes its ratio of social-to-economic value. If an enterprise places a greater emphasis on social values, as compared to economic values, then it would fall somewhere on the left side of the spectrum, and vice versa. This is not to say, however that social enterprises do not make a profit; some of the most successful ones do.

*Figure 3: A Spectrum of Social Entrepreneurship to Differentiate Traditional and Social Enterprises*



Source: own depiction from information in *The Future Is Social Entrepreneurship*.

Using this spectrum to differentiate between social and traditional enterprises captures the fluidity with which an enterprise might be labeled. For example, the green circle shows that area in which it would be more appropriate to label the enterprise as traditional. This, however, does not mean that the enterprise exhibits no social values. Rather, it suggests that the objective is greatly related to profit, while also potentially having secondary objectives to address social and environmental issues through value-add projects, like those of corporate social responsibility (CSR) programs.

This thesis will focus on social entrepreneurship in projects and organizations which are likely to be placed in the left-half of the spectrum, with an emphasis on the creation of social value. The extreme end of the social spectrum, however, is excluded from consideration. The



nature of nonprofits, and the ways in which they sustain themselves, is different than the ones this thesis will address. This is not to say that those programs should be eliminated, but it does not align with the discussions for the purposes of the sustainable, innovative social entrepreneurship in this paper.

### *The Three Pillars of Social Entrepreneurship*

Social entrepreneurship, as defined by Teresa Chahine, is “the process by which effective, innovative, and sustainable solutions are pioneered to meet social and environmental challenges.”<sup>28</sup> The three pillars of social entrepreneurship—effectiveness, innovation, and sustainability—highlighted in Chahine’s definition are crucial to successfully developing a social enterprise.

The effectiveness of a social entrepreneur’s process must be ensured. This is primarily dependent on a firm understanding of a community’s needs. It may be the case that a social entrepreneur will identify a situation in which she finds an issue that she can address through a project without soliciting input from the community. Applying this unsolicited project to change things for the ‘better’—as deemed so by an outsider—is commonly referred to as the *savior complex*. It occurs when people execute plans to resolve an issue before knowing if the community truly wants or needs the issue resolved. A social entrepreneur should have no preconceived ideas of the needs of a community if she does not originate from the community. Making sure that a community agrees with, and is empowered in the process of change, is key in ensuring the effectiveness of a social enterprise. In any other business, the effectiveness would largely be reliant on the ability to generate profit.

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<sup>28</sup> Chahine, Teresa. *Introduction to Social Entrepreneurship*. Boca Raton, Florida: CRC Press, 2016.

A social entrepreneur can then use innovation to develop and implement new ideas that meet a community's stated social needs<sup>29</sup>. Innovation relies on an entrepreneurs' ability to recognize and act on social issues that are either not being addressed or are being addressed inadequately or inefficiently. This is a necessary component in social entrepreneurship because it focuses on methods to generate change in efficient, new approaches to identified issues. Through social innovation, a social entrepreneur determines the proper purpose, mission, vision, value proposition, and values of their social enterprise.

Once a social enterprise is developed, it should focus on creating and maintaining a sustainable business model. The social value created through a social enterprise would produce a more meaningful impact if it were to endure for many years after its establishment. This requires a continuous supply of labor, materials, financing, and other such things needed to keep a social enterprise in operation—much like a regular business. The economic sustainability of a social enterprise should result from within the business model. For example, reinvesting a percentage of profits from the enterprise back into the business would be one technique to ensure financial sustainability; another would be finding the right balance between the 'mission' and financial sustainability.

By encompassing all three of these pillars—effectiveness, innovation, and sustainability, a social enterprise can have an impactful effect when addressing an issue within a community.

### *Outcome vs. Impact*

To understand the function of a social enterprise, one must first understand the general process of change. Change occurs in the following order: 1) inputs, 2) processes, 3) outputs, 4) outcome, and 5) impact. The inputs and processes provide the 'how', the outputs and outcomes

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<sup>29</sup> Huysentruyt, Marieke, Max Bulakowsky, and Peter Ramsden. *Guide to Social Innovation*. Luxembourg: DG Regional and Urban Policy (European Commission), 2013.

provide the ‘what’, and the impact provides the ‘why’. Consider this example of a school unable to function due to lack of water access. How can we supply water to the school? Through inputs that include pipes, a water source, electricity, and tools, we can undergo the process of creating a system to provide water to the school building. What is the point of this pipeline system? The output is a supply of running water for the school to help ensure that the children and teachers remain healthy and can function while at school. Why was this necessary? The goal of increasing access to education can, over time, influence many different things such as economic development through increased employment rates for educated students.

This goes to show that social entrepreneurship comprises both short-term and long-term goals. Each of these goals reveals different levels of progress achieved by a social enterprise. In the short term, a social enterprise strives to produce an outcome. The outcome can be generally regarded as having successful business operations. In the example of providing a school with water, the outcome was to increase access to education. In the long-run, however, the goal of a social enterprise is to produce an impact. The impact of the intervention—access to water—can result in fundamental change within a society. The development of the community will be evident if and when the educated children grow up to use the education in a way that provides them the ability to create a better socioeconomic life for themselves and others. In other words, impacts take time to measure and time to realize. While an *impact* and *outcome* are synonymous in some contexts, when discussing social enterprises, the terms carry an important distinction. The outcome provides a relatively immediate change, hoping to affect the society in a way that creates social impact on society in the long-term. Many social entrepreneurs strive to increase

levels of productivity and competitiveness to produce outcomes that will ultimately create impacts related to decreased levels of inequality and poverty<sup>30</sup>.

Social enterprises use long-term impact to determine their success. This is often accomplished using metrics such as changes in lifestyle, growth of community, health improvements, etc. which can take years to measure. For this reason, it is harder to gauge the success of a social enterprise than that of a for-profit enterprise. A social enterprise is not likely to determine the success of its efforts—to address a given social issue—using this method alone because the forecasted change in society is difficult to measure and often long-term. Social enterprises are businesses that focus on a defined social problem, have originality in pursuits, use a model of economic sustainability, motivate with passion, and have an ability to collaborate and replicate projects<sup>31</sup>.

The use of metrics other than money to measure the success of a social enterprise, however, does not undermine its importance. On the contrary, profit is key in ensuring the sustainability of social enterprises. A successful social enterprise is one that can generate enough profit to sustain operations and reinvest in itself for future growth needs; this indicates a business model that accounts for meeting the break-even point to cover costs incurred and ensures a strategy of continuous funding for the social change<sup>32</sup>. While social enterprises also strive to earn a profit, the profit margin is likely not as high as that of a traditional enterprise. In fact, low salaries and employment benefits from job opportunities in developing countries lead people in

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<sup>30</sup> Atrizco and Long, *Ecosistema De Innovación Social En México*

<sup>31</sup> Ibid.

<sup>32</sup> Brenes, E. R., & Haar, J. (n.d.). *The Future of Entrepreneurship in Latin America*. London: Palgrave Macmillan.

developing countries to pursue traditional entrepreneurship opportunities in search of maximizing earnings<sup>33</sup>.

Differentiating traditional and social entrepreneurship, describing the three pillars fundamental to successful social entrepreneurship, and understanding the long-term nature of the goals serve to provide background as to what social entrepreneurship is. Social entrepreneurs are agents of social change that manage social enterprises in order to ensure efficient, positive change for the community. They must identify the opportunities for change within society, and then use their passion and ideas to do something positive to bring about that change for the benefit of society. Some of the most defining characteristics expressed by social entrepreneurs are innovation, strategy, and impact<sup>34</sup>. These entrepreneurs play an active role in addressing the change they want to see by working with community members, building a sustainable business, and giving something back to the community.

Going forward, I will present the ways in which social entrepreneurs have shown great potential in their ability to address some of Mexico's inhibiting obstacles to economic and social development. This understanding of social entrepreneurship establishes the mindset with which ordinary people can approach situations with innovative ideas, and create a change for the better.

I believe that a person from within a society in need of change can be very efficient in helping solve certain issues. By this I mean to say that Mexicans with great ideas should be able to access the resources needed to develop a social enterprise. The power that the citizens hold to use their local understanding to solve the *real* issues is much greater than might have been previously thought. Social entrepreneurs not only have the mindset and determination to motivate change, but their belief in a better society has the potential to ripple across a country so

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<sup>33</sup> Ibid.

<sup>34</sup> Atrizco and Long, *Ecosistema De Innovación Social En México*

that as many people as possible become actively involved in creating a better social standing for the entire country.

### *Examples of Social Entrepreneurship in Mexico*

The two SDGs discussed earlier—poverty and clean water and sanitation—have been positively impacted by Mexican entrepreneurs. The following success stories serve to illustrate a few ways in which social entrepreneurs have addressed a social issue in an efficient and effective way. While not all social enterprises will necessarily have the same degree of impact, increasing access to programs and resources that allow Mexicans to pursue social entrepreneurship is key to promoting the country’s socioeconomic development.

#### Pixza: A fight against poverty

Entrepreneur Alejandro Souza created a social enterprise called Pixza in 2015 for the purpose of reintegrating homeless people into society by providing them with employment in the pizzeria and a multi-step program for personal and professional development<sup>35</sup>. The pizzeria further stimulates intranational economic activity by serving pizza made with 100% locally sourced ingredients. Souza’s inspiration came as a result of his educational background in business and economics, as well as a Masters-level project for which he documented the life of a homeless man for 6 months. The social objective of the business is the socioeconomic reinsertion and productivity of young people who face social abandonment through employment at the pizza restaurant and an empowerment program<sup>36</sup>. As for the business component of the pizzeria, the objective is to offer Mexicans an authentic experience at a competitive price.

When discussing the SDG regarding poverty as a barrier to the development of Mexico, programs were identified which uncovered faults in the approach the government had historically

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<sup>35</sup> Cerro, Juan Del, and Joshua Hamerschlag. *México 10 Emprendedores Sociales*. 1st edition, 2020.

<sup>36</sup> Ibid.

taken to try to tackle this issue. Pixza focuses on addressing the issue of poverty as it pertains to young people, around ages 17-27, who have been abandoned by their immediate family, extended family, teachers, the government, etc. Many youths become impoverished and homeless due to acts of physical or psychological violence that led to the self-destructive act of this type of exile<sup>37</sup>.

As opposed to the governmental approach to the issue of poverty discussed in the previous chapter, this innovative social enterprise is not merely handing out cash transfers for people to reintegrate into society, but it is making the individual play a decisive role in his or her own future. This way of arousing an individual's motivation internally, along with the empowerment programs ensures higher success in the social aspect of helping reduce the number of youths in poverty due to abandonment. The lack of force suggests that individuals are willing to let others help them, as well as they are ready to work hard to reintegrate into society and end the cycle of crime and poverty in which they might have been found.

The most recent data from Pixza (in 2019) states that the social enterprise is successfully employing 32 people (7 directors, 4 managers, and 21 agents of change), while also having impacted 60 other agents of change and over 100,000 customers<sup>38</sup>. Souza has been successful for a few years now with his enterprise; he suggests that an acknowledgement that charity is not an effective way to maintain a business has greatly led to this success. He avoids the one-sided transaction of charity by using an 'integral model of prosperity' in which everyone gives and receives, which highlights empowerment<sup>39</sup>. This empowerment model highlights the importance of experience, communication, treatment, and mentality of an individual.

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<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

The social enterprise model is an 18-month process involving four steps. First, the individual receives employment at the pizzeria and works there until being promoted to manager. After the promotion, the individual moves on to establish and develop a personal and professional life plan. The third step involves moving the individual out of the streets or shelter in which he was staying to his own apartment. This is done through the money the individual earned from the pizzeria, as well as some support from Pixza's fund for the reintegration program. The final step to reintegration involves taking professional and practical courses tailored to the individual. These courses are meant to teach an individual the basic skills that could be applicable to other jobs and help them understand how to handle things such as building credit. With this step comes the knowledge and skills needed to reintegrate into society.

#### Isla Urbana: A source of water

Isla Urbana is another example of a social enterprise that has been effective. The enterprise was started in 2009 in an effort to address the SDG related to a limited supply of drinking water, specifically in low-income areas of Mexico<sup>40</sup>. This enterprise recognized that the areas of Mexico that are most affected by a limited access to drinking water are low-income communities that have little to no access to clean water through public pipelines.

Mexican social entrepreneurs Enrique Lomnitz and David Vargas proposed the idea of using rainwater harvesting systems and adapting them to provide an innovative and sustainable business model<sup>41</sup>. This collection system is especially beneficial for areas like Mexico City that receive an abundance of rainfall. Because of Isla Urbana, communities have observed positive outcomes from the installation of a total of 20,190 water capture systems that harvest over 800 million liters of water. The enterprise has also earned the recognition of a 'B company', which is

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<sup>40</sup> Ibid.

<sup>41</sup> Ibid.



a term for companies that prove they can simultaneously pursue a social, economic, and environmental impact—i.e., a triple bottom line. The social objective of the business involves creating a sustainable environment through rainwater harvesting that increases access to drinkable water in Mexico by using an underutilized natural resource: rain.

When discussing the clean water and sanitation SDG as it exists in Mexico, one of the main issues that was notable in households that were fortunate enough to have a supply of water to their home was the cleanliness of the water<sup>42</sup>. Isla Urbana has taken that issue and found a solution by utilizing a source of water that is mostly reliable due to the rainy seasons, clean, and ready for future use due to the filter and storage process of the collection system. Further disinfecting techniques could be applied to the rainwater if needed.

Lomnitz and Vargas were inspired and motivated to pursue the development of this social enterprise based primarily on empathy as a result of living near people who suffered from a lack of clean water. This concern, as well as their Mexican upbringing, prompted their determination to address this issue for their people and their country. These entrepreneurs emphasized the effectiveness pillar of social entrepreneurship by living with, and asking the members of the community what issues they felt needed to be addressed. To understand the issues that the communities they worked with were having with water, they took an integrated approach and went door-to-door for meetings with various households. This avoided any potential for misguided assumptions that would have shifted their approach to addressing the issue.

One way in which the government has attempted to address the lack of access to drinking water is through communal pipelines that supply water to an area from which members of the community could go and retrieve water, as needed. This system, along with the distribution

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<sup>42</sup> “Objetivo De Desarrollo Sostenible 6: Agua Limpia y Saneamiento”

systems that deliver this water, are not as practical for the people living in water-restricted conditions. The rain capture system developed by Isla Urbana adds a degree of independence and security to the lives of people who were previously dependent on this scarce and necessary resource. This isn't meant to replace the effort made by the government to solve the clean water needs of these individuals, but rather it's meant to augment that effort and make life a little bit better for these disadvantaged people.

This enterprise has been recognized many times for its accomplishments because of its ability to provide access to clean drinking water. Communities implementing the rain catching systems have not had to continue to spend up to 40% of their income purchasing drinkable water, and further have experienced an increase in their quality of life<sup>43</sup>. As a result, Isla Urbana is helping address numerous issues, directly and indirectly, related to communities without water, including flood alleviation, sinking of cities caused by extraction of water from subsoil, slowing the depletion of aquifers, and energy savings from a decreased need for pumping water from far-away locations.

Both of these examples—Pixza and Isla Urbana—serve to show the impact that social entrepreneurs have had on Mexico. While neither project is grand in terms of the scale, the impacts are still significant and have made a difference in the lives of many. These entrepreneurs have found ways to handle issues relating to the UN's SDGs in Mexico with different approaches than the Mexican government. To understand why this is so, it might help to consider the idea that people in power tend to come from a background of wealth and power, so addressing issues that tend to be present in communities of relatively low-income can be difficult and inefficient.

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<sup>43</sup> Ibid.

In order to understand the ease with which one can create a social enterprise, an analysis of the obstacles to creation need to be evaluated. The next chapter of the thesis will shift the focus to understanding the social entrepreneurial environment as it exists in Mexico in recent years.

### Chapter 3: Obstacles to Successful Entrepreneurship

Social entrepreneurship tends to emerge with the support of a community, funding opportunities, and resources (i.e. access to technology). In Mexico, there are obstacles to social entrepreneurship that do not directly prohibit the development of social enterprises, but rather they indirectly decrease the likelihood of development of those enterprises. By this, I mean that in Mexico, social entrepreneurship is impeded. This in turn, creates a less than inviting environment for social enterprises to be created and/or thrive.

#### *Mexico's International Ranking*

According to the 2019 World Economic Situation and Prospects, Mexico is an upper-middle-income (UMI) developing economy because of its 2018 Gross National Income (GNI) per capita of \$9,180USD<sup>44</sup>. The GNI per capita measures income as it was received by all residents and businesses regardless of if they operate in Mexico. An UMI ranking, as opposed to a lower-middle-income ranking, might suggest that the economic problems in the country have more to do with macro-level structure issues (i.e. government corruption) than more fundamental issues like providing clean water to its citizens. While Mexico is an UMI country, there are many persistent problems, such as perpetuating poverty levels and a lack of clean water and sanitation.

Mexico's GNI, further, firmly secures its title of a 'developing country' because of the influence that its economy has on its level of progress. If Mexico were to experience an increase in GNI per capita, it could not only earn its title as a 'developed economy', but it would also likely spur additional forms of development (i.e. environmental, etc.). Since the economy and the development of the country are intertwined, it is safe to say that Mexico could become a developed country if its economy were to improve. This type of change, however, is easier said

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<sup>44</sup> "Country Classification." Essay. In *World Economic Situation and Prospects*, 143–50. United Nations, 2014.

than done because the resources needed to increase a country's GNI are often affected by the conditions of the country.

Mexico's standard of living according to its GNI per capita and GDP per capita of \$9,673 USD in 2018 allows for a generalized understanding of Mexico's status as a developing country based on the average citizen's living expenses<sup>45</sup>. Like the rest of the world, Mexico seems to fall into the majority characterized by a GDP between the \$8.30-19.90USD (in thousands)<sup>46</sup>. However, each country faces different problems resulting in their respective GDP and GNI measurement, there cannot be a direct comparison drawn here for purposes of this thesis since the focus is national.

### *Entrepreneurial Conditions in Mexico*

The 2019 Global Entrepreneurship Monitor (GEM) report shows that Mexico scored 4.72 out of 10 points on the National Entrepreneurship Context Index (NECI)—which is a composite index that assesses the entrepreneurial environment in an economy<sup>47</sup>. This score was similar to that of Japan and Ireland (4.71), but quite distinct from the United States (5.31) ranking 10<sup>th</sup> and Switzerland (6.05) ranking 1<sup>st</sup>. This score indicates where we expect to see healthy entrepreneurship—not specifically social entrepreneurship. The 12 pillars taken into consideration for the rankings include finance, government, education, research and development (R&D), infrastructure, market entry, and socio-cultural norms<sup>48</sup>. Mexico's NECI score is the highest of the seven Latin American countries reported, suggesting that despite the country's many perceived shortcomings, there are some factors that help promote the growth and

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<sup>45</sup> “GDP per Capita (Current US\$) - Mexico.” World Bank Data.

<sup>46</sup> See Appendix C

<sup>47</sup> Bosma, Niels, Stephen Hill, Aileen Ionescu-Somers, Donna Kelly, and Jonathan Levie. *Global Entrepreneurship Monitor*. Regents Park, London: Global Entrepreneurship Research Association, 2020.

<sup>48</sup> Ibid.

development of entrepreneurial enterprises including the physical infrastructure for use in entrepreneurial pursuits as well as entrepreneurial education at a post-school stage.

Mexico's *Economy Profile* in the GEM report further supports the NECI ranking with data gathered from Mexico's population survey. About half of the Mexicans that were surveyed suggested that it would be easy to start a business in Mexico, while nearly the same percentage (47.7%) would not pursue the opportunity over fear of failing in entrepreneurial pursuits<sup>49</sup>. This information provides insight regarding the self-perceptions of Mexicans as being risk-averse until a strong motivating factor is present.

The data indicate that the two greatest motivations for entrepreneurs in Mexico are 1) earning a living, and 2) making a difference in society. These motivations respectively scored an 85% and 65.1% rating in the category regarding Total Early-Stage Entrepreneurial Activity (TEA)—which is a proportion of the working-age adult population actively engaged in starting or running a new business. The percentage of Mexicans that account for the TEA is over seven times greater than that of Mexicans that account for the Established Business Ownership rate, providing evidence of high entrepreneurial activity despite, or because of, the business conditions in the country. One reason for this might be the relative ease of starting an enterprise in Mexico, regardless of the long-run difficulty. Another reason might be the fact that many businesses choose to pursue entrepreneurship in informal markets because of the desire to avoid regulation and taxes, which may leave them unaccounted for in statistics such as those of the GEM report.

In another book regarding entrepreneurship, the Social Innovation Index (SII), Mexico ranks 32<sup>nd</sup>—out of 45 countries—showing a relative lack of progress in social innovation.

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<sup>49</sup> Ibid.

Specifically, the index measures a country's policy framework, financing, entrepreneurship, and societal factors as they contribute to social innovation<sup>50</sup>. Of the 10 middle income countries measured in the SII, Mexico was 5<sup>th</sup>, with South Africa in 1<sup>st</sup> and Paraguay in 10<sup>th</sup>. The countries that ranked in the top 10 (out of 45) can all be characterized as western and rich. This correlates wealth and development to a high degree of social innovation. Given Mexico's developing socioeconomic status, it is not well equipped to compete with the top contenders, but that does not downplay the importance of promoting social innovation in the country. Social innovation is a driver of social entrepreneurship, and can be a great tool for the progression of development.

Social entrepreneurship in Mexico exists in a turbulent landscape, in which political, economic, and social factors play key roles in determining the success of a social enterprise. This chapter will now present four of the many issues that might inhibit the development of social enterprises. In researching obstacles to social entrepreneurship, it became apparent that there is limited research related to this topic, and many details to be covered. This section will contain only the specifics necessary to convey the four obstacles and their limitations.

To best understand the environment for social entrepreneurship, I will conduct a PEST analysis. The PEST analysis is completed using political, economic, social, and technological factors to evaluate obstacles in Mexico's social entrepreneurship environment. Rather than an international analysis of how Mexico compares to other countries in terms of the PEST factors, I will maintain a national focus and look at recent changes to each factor in recent years. This will be used to discuss potential obstacles to the creation of social enterprises. An understanding of the obstacles will develop a foundation for a proposed solution.

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<sup>50</sup> Line, David, and Jonathan Hopfner. *Social Innovation Index*. Edited by Naka Kondo. The Economist Intelligence Unit, 2016.

*Political: The Government's Policies During the Rise of Entrepreneurship*

The Mexican government's role in promoting an environment favorable to social entrepreneurs cannot be overlooked. Institutions created by the government have the potential to provide funding opportunities and programs for entrepreneurs, as well as a stronger bond between the community of entrepreneurs and the government. The government has a responsibility to address entrepreneurs as an invaluable tool to accomplishing the country's key goals of promoting innovation, and growing the small and medium enterprise (SME) sector through growth of entrepreneurship and the small and medium enterprise (SME) sector<sup>51</sup>. For purposes of this paper, a discussion of SMEs will be omitted, although SMEs and entrepreneurial enterprises tend to be discussed together.

The concept of social entrepreneurship began to gain momentum in Mexico around 2011<sup>52</sup>. A big stride towards greater governmental recognition of social entrepreneurship occurred in 2013, when President Enrique Peña Nieto—president from 2012 to 2018—passed a set of over 100 reforms known as *Pacto por México* (Pact for Mexico)<sup>53</sup>. Implementing such reforms led to the creation of the *Instituto Nacional del Emprendedor* (National Entrepreneur Institute), abbreviated INADEM<sup>54</sup>. The INADEM was an administrative body within the Ministry of Economy, which aimed to implement a national policy of support for entrepreneurs and SMEs in order to increase economic development and social welfare. Two main focuses of the INADEM, as stated by the organization's first president Enrique Jacob Rocha, were the creation of a network for entrepreneurs, as well as a budget and a variety of programs to support

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<sup>51</sup> "Promoting High Impact Entrepreneurship in Mexico Concept Note." World Bank Group (Impact Program), 2016.

<sup>52</sup> Ibid.

<sup>53</sup> *Entrepreneurship and Innovation in Mexico*. YouTube. The Woodrow Wilson Center, 2014.

<sup>54</sup> "Study of Social Entrepreneurship and Innovation Ecosystems in the Latin American Pacific Alliance Countries," 2016.



entrepreneurship. The organization also set up partnerships with over 400 entrepreneurial organizations, educational institutions, and public offices to provide the people of Mexico easier direct access to resources and information<sup>55</sup>. In theory, it was set up to provide enterprises in Mexico a way to grow and benefit the economy through favorable policies and financing opportunities.

During the first two years of implementation, the INADEM awarded 15 projects \$80,000,000 USD to help over 500 high-impact entrepreneurs<sup>56</sup>. There are two specific grants that were beneficial to social entrepreneurs: one which focused on individuals or institutions that exhibited high entrepreneurial spirit, and one grant that was awarded to productive incubators. More information about the incubator award and the individual entrepreneur award granted by INADEM<sup>57</sup>. These monetary awards were given to schools, incubators, and individuals that exhibited high levels of impact, professionalism, originality, and innovation—which were considered among the likelihood of success<sup>58</sup>. Approximately 10 winners were chosen each year from 2014-2017.

An example of a winning institution is Angel Ventures (Mexico), a venture capital firm with an incubation program—*Archetype*—that started in 2012. With the help of an INADEM award, Angel Ventures was able to provide scholarships for people to enter the incubation program free of charge. In an interview, a social enterprise that received a scholarship mentioned that if it wasn't for the scholarship, he would not have participated in the Archetype incubation program.

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<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> See Appendix D

<sup>58</sup> “Premio Nacional Del Emprendedor” (pp. 1-29, Rep.). 2018. Dirección General de Programas de Desarrollo Empresarial.

In 2018 when Andrés Manuel López Obrador (ALMO) was elected to replace Peña Nieto as the President of Mexico, AMLO promised to undo the reforms created under Peña Nieto, including INADEM. As a result of the removal of INADEM, governmental support for entrepreneurs changed. Many news articles were published in December of 2018, when the decision to remove the INADEM had become official, concerned that entrepreneurship had not yet earned the level of national concern that secures its institutional form within the government regardless of who holds the presidential title<sup>59</sup>. However, there were two arguments in favor of the removal of the organization: 1) high levels of corruption in the INADEM, and 2) eliminating intermediaries would save the country money<sup>60</sup>. Both of the arguments were ultimately related to corruption; the elimination of intermediaries was justified because of presumed high levels of corruption prohibiting funds from being exercised as intended. The people who supported the INADEM suggested that corruption is a well-known problem that plagues Mexico, but rather than eliminate the administrative body, the government should be focused on addressing that corruption<sup>61</sup>.

In the seventh reform of the Law for the Development of Competitiveness of Micro, Small, and Medium Enterprises (LDCMPME) of 2019, the articles relating to the formation of the INADEM were repealed<sup>62</sup>. The link to the INADEM page on the Mexican government's websites is no longer displaying information, and has redirected the user's attention to a program called *Unidad de Desarrollo Productivo* (Productive Development Unit), or UDP. This organization appears to have a broader focus of stimulating the Mexican economy, but also

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<sup>59</sup> "AMLO Desaparecerá Al Inadem y Así Reacciona El Ecosistema Emprendedor." *Alto Nivel*, December 8, 2018.

<sup>60</sup> Álvarez, José Luis. "La Desaparición Del Inadem Casi Es Un Hecho. ¿Cuáles Son Los Pros y Los Contras?" *el Contribuyente*. Vivinmedia, June 21, 2019.

<sup>61</sup> *Ibid.*

<sup>62</sup> El Congreso General, Reforma 7: Ley para el Desarrollo de la Competitividad de la Micro, Pequeña y Mediana Empresa (2019).

includes a budget program called the National Entrepreneurship Fund—similar to the fund under Peña Nieto, but with a greater emphasis on programs rather than direct monetary awards. The UDP appears to support primarily women and young people looking for financial support for small companies in order to innovate and diversify the economy. Two financing programs, Support for Women Entrepreneurs and Young Entrepreneurs, provide information, technical assistance, training programs, and financing in an attempt to promote the entrepreneurial culture via credit options for operating businesses<sup>63</sup>.

While there seems to be some consideration for entrepreneurs, it appears the new administration has yet to develop a program as involved in stimulating the development of enterprises as INADEM did. There is a greater focus on reviving failing companies that are already in existence, which could speak to the desire for increasing productivity in the country, but does little for entrepreneurs looking to find the resources to help them get started. As a result of not having a permanent entrepreneurial structure resourced by the government in combination with the volatility of the political system in Mexico, the political impact on social entrepreneurs seems to favor a lack of reliance on governmental programs. This section further demonstrated the impact of corruption on stifling economic innovation.

### *Economic: Funding and Lack Thereof*

Funding options are vital to the success of social entrepreneurs. Money is needed to develop a company during the seed/incubator stage, as well as the growth stages of an entrepreneur's journey to create a sustainable enterprise. However, like many countries in Latin America, Mexico has limited funding options for traditional entrepreneurs and enterprises in both the seed and early stages of development<sup>64</sup>. This suggests that funding opportunities would

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<sup>63</sup> Secretaría de Economía. "Unidad De Desarrollo Productivo (UDP)." Gobierno de Mexico, March 31, 2020.

<sup>64</sup> "Promoting High Impact Entrepreneurship in Mexico Concept Note."

be just as few, if not fewer, for social enterprises given that they are relatively new projects that have only been around for the past 10 years and do not have a main objective centered around profit making. In this section of the PEST analysis I will focus on financing options available to social entrepreneurs, and their accessibility to small or medium sized social enterprises.

One way that entrepreneurs can gain access to funds is through the 3F's: friends, family, and fools. This method largely relies on an entrepreneur personally asking people close to them for money—in the form of a loan or an outright donation—to fund their social enterprise. This method is becoming increasingly practical with the increasing access to technology, and the ease of utilizing crowdfunding sites. The circle of potential investors is therefore able to expand to consist of people theoretically around the globe, which in turn can help an entrepreneur who otherwise might not have local support. A drawback to this approach for funding, however, is that local entrepreneurs working on small projects are not likely to receive international attention and therefore, generate a large amount of money. This is especially true when average GDP is low, because fewer local options may be available.

Another approach for an entrepreneur to increase her capital is by acquiring credit loans from a bank. For social entrepreneurs, however, the qualifications required for a business loan are oftentimes difficult to meet. The difficulty of receiving a loan is produced as a result of a social entrepreneur lacking the guarantees necessary, failing to meet the threshold of acceptable accounting profits, and utilizing business models that are not fully understood by banks<sup>65</sup>. Furthermore, the difficulty of applying to get a loan may not justify the unfavorable terms, amounts, conditions, etc. of receiving a loan. A way some entrepreneurs avoid credit lending by banks is by receiving credit directly from suppliers. Making deals directly with suppliers can

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<sup>65</sup> *El Ecosistema Financiero Para Empresas Sociales: Mapeo, Análisis y Recomendaciones Para Contribuir a Su Mejora*. La Fundación del Empresariado en México A.C., 2018.

result in higher credit limits and more manageable financing terms. Some banks do, however, have programs that offer direct support for social entrepreneurs. An example of this is Citibanamex's *Emergente* contest. This contest chooses two applicants from a competitive pool of entrepreneurs to receive funding for the development of a social enterprise. These contests can help launch social enterprises; however, such opportunities are few and far between in Mexico. Even with the existence of such contests, there are few opportunities in Mexico for social entrepreneurs to obtain outside financing for their enterprises.

An alternative option to traditional credit loans and bank administered competitions is microfinancing. Microfinancing loans provide financing that favors conditions of the low-income population, making them ideal for a developing country like Mexico<sup>66</sup>. These loans are made available by large banks with enough capital to offer riskier loans, or nonprofit organizations that can source money from donors and other similar forms of contribution. An example of a microfinance organization is The Good Partner (*El Buen Socio*), which uses funds from impact investor organizations to provide rural communities with financing options at rates that are adapted to an individual project's business model and needs<sup>67</sup>. Microfinancing options such as The Good Partner, understand the governance of a social enterprise. With this understanding, a negative consequence is that the organizations are aware of the relatively high risks associated with the uncertainty of social entrepreneurial pursuits, so higher interest rates are imposed. If the enterprise does not succeed, this could result in a costly investment. Microfinancing options are more accessible to social entrepreneurs, making them more desirable than credit loans from banks. However, the high interest rates on microfinancing credit could still

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<sup>66</sup> D'Angelo, Matt. "What Is Microfinancing?" Business News Daily, January 23, 2020.

<sup>67</sup> "Nuestro Impacto." El Buen Socio, 2020.

cause hesitancy among early-stage entrepreneurs with an uncertainty for future profits, which in turn will facilitate loan repayment.

A shift from credit to equity financing reveals more options for social entrepreneurs, such as private investment options. The differences between credit and equity financing are many. One is that credit financing requires an interest rate proportional to the risk of a project, while equity financing requires partial ownership of a company via stock shares in the event of future profit generation from successful projects<sup>68</sup>. Additionally, credit financing secures assets with guarantees, but equity financiers do not have the same level of security, so investors tend to be more involved in helping the enterprise achieve success.

One specific branch of private investment that has increased in the past decade is impact investing. The Global Impact Investing Network (GIIN) explains impact investing as an investment with the “intention to generate positive, measurable social and environmental impact alongside a financial return”<sup>69</sup>. Mexico is one of 33 countries that is part of the Global Steering Group for Impact Investment (GSG), an organization with a mission to expand the impact investing ecosystem throughout the world<sup>70</sup>. According to GSG’s impact investment profile on Mexico, in 2019 the country experienced a high-volume of impact-related capital financing deals—137—with a total investment of about \$1.5 billion USD<sup>71</sup>. The increase of entrepreneurial pursuits in Mexico provides a greater number of future possibilities for impact investing, but investors say that there are not enough programs with sufficient expertise and a well-developed business plan to consider for investment<sup>35</sup>.

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<sup>68</sup> *El Ecosistema Financiero Para Empresas Sociales*

<sup>69</sup> “What You Need to Know about Impact Investing” Global Impact Investing Network, 2020.

<sup>70</sup> “Mexico: Transforming Investment Decisions.” GSG, 2017.

<sup>71</sup> *Country Profile: Mexico*. The Global Steering Group for Impact Investment, 2019.

Impact investing is largely used by venture capitalist firms looking to support social entrepreneurs in Mexico. Venture capital (VC) is a form of financing offered to enterprises that the VC firm identifies as having potential for long-term growth, in exchange for equity in the enterprise<sup>72</sup>. This form of financing usually takes a more integrated approach than credit financing because the involvement of the VC firm could begin during the seed or incubator stage of an enterprise, and possibly continue for years beyond. In Mexico, one such example is Adobe Capital.

Adobe Capital (AC) exists in the impact investment branch of the Inter-American Development Bank (IDB) asset owners. AC provides convertible loans and fund managers to help impact-entrepreneurs develop their enterprises<sup>73</sup>. The firm's desire for 'impact' entrepreneurship makes its services ideal for social enterprises since their objective is centered on a social cause. The triple bottom line—financial, social, environmental—returns are expected by enterprises in which AC chooses to invest<sup>74</sup>. By making investments through two investment funds (equity and mezzanine), AC has supported eight companies in Mexico since it began operations in Mexico in 2013<sup>75</sup>. While it seems as though large investments have been used to develop projects, the number of enterprises in AC's portfolio is small. VC asset managers like AC are similar to bank competitions for social entrepreneurial funding in that they are presented from a pool of applicants from other organizations, such as New Ventures, that have been identified as having enough potential to be considered for funding by AC. This makes the accessibility to such funds unlikely for many small-medium enterprises.

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<sup>72</sup> “What Is Venture Capital?” Business News Daily, May 23, 2020.

<sup>73</sup> Kim, Su Hyun. *Adobe Capital Mexico. The Global Steering Group for Impact Investment*, 2017.

<sup>74</sup> Ibid.

<sup>75</sup> Ibid.

Another form of venture capital is provided through venture philanthropy (VP) organizations. VP organizations work in a similar manner as VC firms, but with a focus on emphasizing the social returns to society. One widely known VP asset manager is called *Promotora Social Mexico* (Social Promoter Mexico). The main focus of this organization is to take on projects that tend toward education, healthcare, and economic development through enterprises that have favorable potential impact, financial feasibility, business model, scalability, and replicability<sup>76</sup>. Social Promoter Mexico has taken on more projects than AC and the AC corporate capital fund have. However, Social Promoter Mexico does not grant seed capital, nor does it invest in ideas that are in the incubator stage, so there are limitations to accessibility. A social entrepreneur must already be in the early or growth stages of development to apply. This is, however, not to say that other VP organizations have similar limitations.

The overall accessibility of VC firms and VP organizations seem to be limited, given that there are only a handful of projects selected for investment in any given year. Additionally, each VP and VC will offer their own mission by identifying certain social and/or environmental issues that they would like to see addressed by a social entrepreneurship.

#### *Social: Lack of Entrepreneurial Culture*

A supportive entrepreneurial culture in Mexico is necessary to be able to encourage the creation of social enterprises, and spur further development in social entrepreneurship. Without a supportive culture it can be easy for a social entrepreneur to become discouraged, have a hard time understanding certain aspects of development, and feel reluctant to pursue social entrepreneurial ideas. There are a variety of aspects that can be considered when discussing culture. For the purpose of this PEST analysis section, I will be discussing how the traditional

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<sup>76</sup> “Promotora Social México.” PSM, 2020.



culture of Mexicans affects how social entrepreneurship is viewed, and the components needed in society to help entrepreneurial culture flourish.

A large majority of Mexico is Catholic. Without yet having the results of the 2020 census, it can be determined that the percent of Mexicans who identify as Catholic will decrease proportionally to previous years, still suggesting that around 75% of Mexicans are Catholic<sup>77</sup>. This is down from 83% percent in the 2010 census. The overwhelmingly Catholic nature of the country poses two issues related to social entrepreneurship in Mexico: fatalism and charity. Both fatalism and charity are culturally-based concepts.

Catholicism expresses the idea of fatalism, which suggests that people should remain in the environment in which they were born<sup>78</sup>. This idea inhibits societal progression because people who hold this to be true will be complacent with the life that they believe God chose for them to live. An example of fatalism is a poor person finding ways to cope with their lifestyle and maintain that socioeconomic condition because that's what God wanted. In this way, traditional forms of Catholicism in Mexico are stalling productivity. According to sociologist Max Weber, if a country is built upon Catholic values and beliefs (i.e. fatalism), then the country will tend to remain underdeveloped<sup>79</sup>. Citizens will adapt to the conditions into which they were born instead of looking for a way to break the generational cycle that they're subject to. Weber's argument that religion matters still holds to be true today. There are many people in official government positions that likely still hold such traditional, conservative ideas while running the country. It is likely that as the number of Catholics goes down, there will be a greater

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<sup>77</sup> Aguilar, Rubén. "Católicos En México." *El Economista*. January 20, 2020.

<sup>78</sup> Brewer, Jeremi. "Culture, Poverty and Necessity Entrepreneurship: The Academy for Creating Enterprise in Mexico and the Philippines," 2012.

<sup>79</sup> Ibid.

understanding of why progress is beneficial, and how social entrepreneurship can help the country develop.

In another aspect of culture, there exist certain connotations about charity that may limit the understanding of what social entrepreneurship is. In an interview, Luis Alonso Castellanos Velasco, a five-year professor of entrepreneurship in Mexico, spoke to the impact that culture has had on social entrepreneurship in Mexico by suggesting that people often understand social entrepreneurship to be an extension of charity<sup>80</sup>. This dampens social entrepreneurship because social enterprises are thought to be unnecessary means to the result of giving to the less fortunate. Social enterprises are not charity because they do seek profit in order to reinvest and grow businesses, as well as to provide laborers with a salary. Because social enterprises are not seen as traditional enterprises or charity, a concern arises that the serious social problems which social entrepreneurs address are being minimized given this culture.

According to Velasco, there is a fundamental lack of understanding among Mexicans which relates to the paradox that in a society people praise traditional entrepreneurs for financial success more than they praise social entrepreneurs who make important and sustainable impacts on the society<sup>81</sup>. Society has not yet come to terms with the business model of social enterprises and the idea that such enterprises are also capable of providing the owner with a profit. Charity, especially in a religious context, has often been about helping others selflessly, expecting nothing in return. Charitable actions help increase the cohesiveness and resilience of a society as a result of support by those with more than those with less<sup>82</sup>.

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<sup>80</sup> Aguilar, Karla, and Luis Alonso Castellanos. Interview with Luis Alonso Castellanos, September 3rd, 2020.

<sup>81</sup> Dees, J. Gregory. "A Tale of Two Cultures: Charity, Problem Solving, and the Future of Social Entrepreneurship." *Journal of Business Ethics* 111, no. 3 (2012): 321-34.

<sup>82</sup> Ibid.

Moving away from discussing the mindsets of Mexicans that hinder the promotion of social entrepreneurs, I will now discuss the business characteristics necessary for social entrepreneurship to thrive. While there are, once again, many factors that affect the success of an entrepreneurial environment, only a few will be considered for purposes of this thesis. Three characteristics which affect the success of a social entrepreneurship community, as discussed in *Startup Communities*, are 1) a plethora of companies, 2) a large network, and 3) a “creative class”<sup>83</sup>. First, the idea that there is a benefit to many companies existing in an area where many other companies are located, suggests that it is likely for social entrepreneurship to be successful in metropolitan areas in Mexico. Rural areas and small cities will likely not be able to benefit from external economies of scale that are available in the large and resourceful metropolitan cities. Entrepreneurs can decrease their input costs in an area where certain fixed costs (i.e. infrastructure) are shared by other entrepreneurs in the same area<sup>84</sup>. Second, the “network effect” operates under the assumption that having additional social entrepreneurs and like-minded people in a community increases the value of that area, and is likely to draw other people to it<sup>85</sup>. An example of this in Mexico can be observed in Mexico City, the largest city in Mexico with a population that continuously expands. If the number of entrepreneurs in the city were to increase, this would create a culture of increased information sharing that would benefit enterprises at all stages of development looking for a community that can offer guidance. This horizontal exchange of information is what is missing in many areas of Mexico that lack public organization or sufficient entrepreneurs to create communities where social entrepreneurs can share ideas, tips, success stories, failure stories, and other information that can prove useful for

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<sup>83</sup> Feld, Brad. *Startup Communities: Building an Entrepreneurial Ecosystem in Your City*. Hoboken, New Jersey: John Wiley & Sons, Inc., 2020.

<sup>84</sup> Ibid.

<sup>85</sup> Ibid.

someone starting a similar process of development. Third is the need to have a “creative class”, which involves a pool of people from any profession or field of study that have the capacity to think in new and creative ways<sup>86</sup>. These people help spur innovation and inventions regardless of whether they want to contribute to a social enterprise. One issue Mexico runs into here is the potential for a ‘brain drain’, where entrepreneurs leave to other countries like the U.S. in pursuit of better opportunities and more resources.

Mexico seems to be experiencing an environment for social entrepreneurs that has not yet outgrown the traditions of the past and may not completely grasp the concept of social entrepreneurship. This, along with the fact that only larger cities in the country have the potential to provide a community that supports social entrepreneurs, suggests that while the environment may not favor social entrepreneurs yet, the future might hold promise in this respect.

### *Technology: Is it Enough?*

Technology is becoming an increasingly important tool in many different aspects of life, and entrepreneurship is no exception. In order for an enterprise to flourish, it must be equipped with the right tools to do so. In this part of the PEST analysis, the technological advances and deficiencies of Mexico will be explored by identifying technological advances made in the country, and looking at future potential for growth.

In 2015, as part of President Enrique Peña Nieto’s telecommunication reform acts, the price of calls which were deemed *Larga Distancia* (Long Distance) and charged at an extra rate if outside of the city, were priced at local call rates<sup>87</sup>. The decreased cost of communication increased communication access. In another technology-related reform signed by Peña Nieto in 2018, the regulation of the financial technology (fintech) sector was established so that the

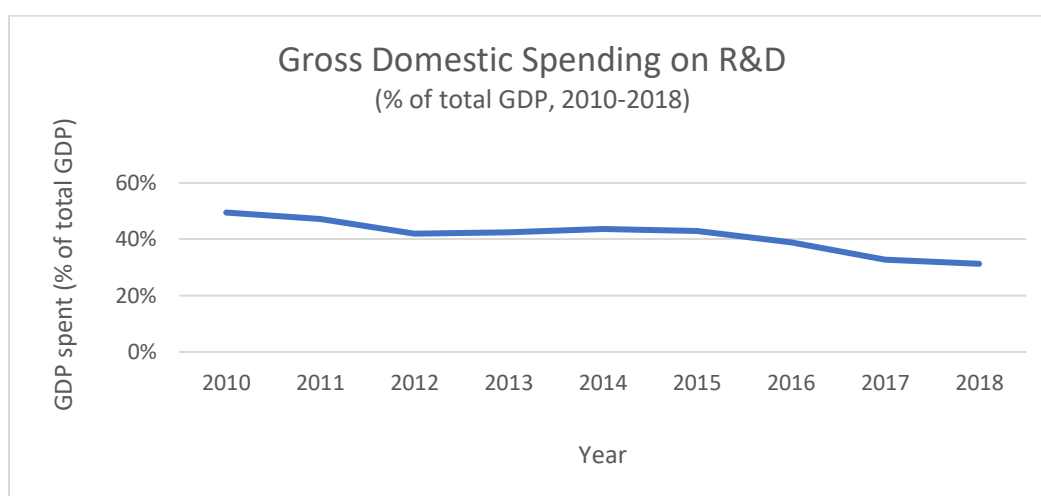
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<sup>86</sup> Ibid.

<sup>87</sup> “Communications in Mexico.” Mexperience. Accessed September 2020.

country could promote a financially stable economy through the services from the sector (i.e. crowdfunding, electronic payment methods, etc.)<sup>88</sup>. This act shows Mexico's willingness to embrace the new technology, and fintech's ability to provide financial instruments to Mexicans who might have otherwise not been traditional financial institutions<sup>89</sup>. Both reforms illustrate ways in which the government is aiding the development of technology and making it accessible to more of the population. This progress via reforms, however, may be undermined by the lack of funding for research and development (R&D) in Mexico.

*Figure 4: Gross Domestic Spending on R&D (2010-2018)*



Source: own elaboration of data from "Gross Domestic Spending on R&D." OECD, 2020.

Figure 4 shows a clear decline of R&D spending. According to the Organization for Economic Cooperation and Development (OECD), this spending consists of the total current and capital expenditures by "all resident companies, research institutes, university and government laboratories, etc.," in Mexico<sup>90</sup>. The decrease in spending on R&D is further exacerbated by

<sup>88</sup> "Mexico Financial Technology Law Passes Final Hurdle in Congress." Reuters. Thomson Reuters, March 1, 2018.

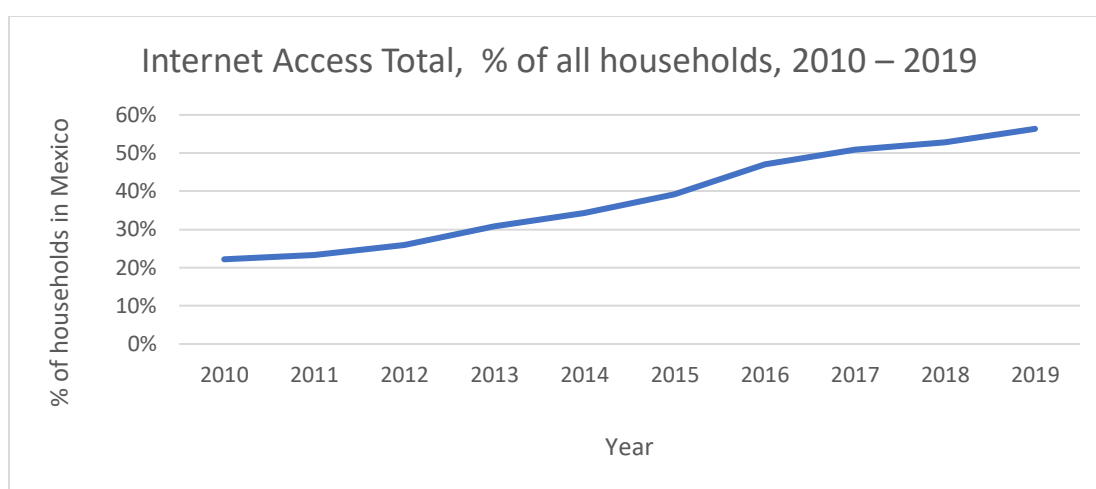
<sup>89</sup> Wood, Sophia. "13 Facts about Mexico's Growing Technology Scene - Launchway Media: Tech PR and Digital Marketing for Startups." Launchway Media | Tech PR and Digital Marketing for Startups. Launchway Media | Tech PR and Digital Marketing for Startups, January 29, 2019.

<sup>90</sup> "Gross Domestic Spending on R&D." OECD, 2020.

relating the trend line to that of other countries<sup>91</sup>. To offer a comparison, the United States spent 2.826% of GDP on R&D in 2018, while Mexico only spent 0.313% of GDP on R&D that same year.

Another indicator of Innovation and Technology is the percentage of the population that has internet access in their household. Internet access has steadily increased over the years, yet only about 56% of the households in Mexico had access to the internet in 2019 (Figure 5).

*Figure 5: Internet Access in Mexico (2010-2019)*



Source: own elaboration of data from “Internet access (indicator).” OECD, 2020.

This percentage is determined based on the number of houses that have internet access through personal computers by way of cable broadband access or another means<sup>92</sup>. In 2013, one initiative put forth by the government to increase access to the internet was an initiative known as *México Conectado* (Connected Mexico), which focused on adding broadband connection to many public facilities so that more people could have access<sup>93</sup>.

<sup>91</sup> See Appendix E

<sup>92</sup> “Internet access (indicator).” OECD, 2020.

<sup>93</sup> Barry, Jack J. “Op-Ed: Mexico Wants Internet for All. That Could Reduce Poverty.” UConn Today, November 26, 2018.

The Mexican government seemingly understands the importance of the technology in helping the country advance economically and socially. The programs enacted by the government are examples of ways in which technology access is being expanded. However, there also appears to be a reluctance among Mexicans to fund research and development. This might be one reason why, despite the increase in communication and internet access, Mexico still lags behind other countries in the OECD data.

The conclusions of this PEST analysis reveal that Mexico still lacks some of the necessary support for a social entrepreneurship environment. From the *Political* sector, there is uncertainty as to what resources will be available for social entrepreneurs because they are largely dependent on whatever administration is in office at that time, since no permanent official government sector can be relied upon. In terms of the *Economics*, there are a lot of different types of financing options available, but receiving the money is often quite difficult and comes with certain restrictions that may not favor the development of a social enterprise. The *Social* analysis presents a culture that has not quite adjusted to the idea of social entrepreneurship, and an environment which favors the development of startup communities in metropolitan areas. Finally, *Technology* is increasingly becoming accessible to citizens of Mexico, but a decrease in research and development could negatively impact future progress and inhibit the creation of a competitive advantage for the country.

The results of the PEST analysis, further, warrant an investigation to find a method of developing social entrepreneurship that overcomes the political, economic, social and/or technological deficiencies in Mexico. By this, I suggest that there is a platform in Mexico that mitigates some of the obstacles that hinder the creation of social enterprises. Such a platform

could be proposed as a vehicle for driving the development of social entrepreneurship in the country.



## Chapter 4: The University Approach

This chapter will focus on how universities can be used as platforms to overcome some of the obstacles identified in the PEST analysis by implementing curricular and extracurricular programs that promote social entrepreneurship. To support the role of universities in mitigating obstacles to social entrepreneurship, I will first discuss the approach of a private university—*Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM)*— that runs a social entrepreneurship program in Mexico. This discussion will be accompanied by references back to the PEST analysis in order to clarify how the university helps overcome some of the obstacles present in the social entrepreneurship environment. Following that, I will explore findings in the literature that demonstrate how entrepreneurship education in universities might matter. This evidence will largely present why and how entrepreneurship education can be beneficial to creating well-rounded students regardless of which field of study they enter. Finally, I will end with a case study to present the journey of a group of social entrepreneurs who try to develop a social enterprise through the university approach. The study presents a situation in which the university approach proved successful in the development of a social enterprise from seed/incubator stage to early-stage.

### *Tecnológico de Monterrey (Tec)*

ITESM, also known as *Tecnológico de Monterrey (Tec)*, is a private educational institution with a vision to promote human flourishing through leadership, innovation and entrepreneurship<sup>94</sup>. The origins of the university are, in fact, deeply rooted in entrepreneurship. Eugenio Garza Sada, and a group of fellow entrepreneurs, founded the school in 1943 with a belief in the power of education to transform the world through innovation<sup>95</sup>. Today, Tec

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<sup>94</sup> “Formación Que Transforma Vidas.” Tecnológico de Monterrey, 2018.

<sup>95</sup> Ibid.

comprises 26 campuses throughout Mexico and is nationally recognized for offering ample development opportunities and an unparalleled educational experience. The university's core values include innovation, a global outlook, teamwork, a sense of humanity, and integrity, all of which help equip students to become catalysts for change and progress in the world<sup>96</sup>. The strategy with which Tec proposes to make an entrepreneurial impact involves a competitive position in the world as a leader for change through entrepreneurship, innovation, and technological development. Its entrepreneurial efforts have been nationally recognized, and were awarded the National Entrepreneurship Award in 2014 by the INADEM for promoting the 'entrepreneurial spirit'<sup>97</sup>.

The Eugenio Garza Lagüera Entrepreneurship Institute was created in 2013 to carry out the university's mission to promote innovation, creation, and the development of transformative ideas<sup>98</sup>. The institute is an entrepreneurship ecosystem for Tec because it creates and provides entrepreneurship programs, resources, and opportunities<sup>99</sup>. The programs provided by the university through the institute vary according to the campus of focus. Of the 26 campuses, Tec Campus Mexico City is the one of focus for this section of the thesis. Tec's campus in Mexico City officially began operations in 1973 and is situated in the country's capital, which also happens to be its largest city. It was selected for this discussion because it is one of eight Tec campuses that has an Innovative Social Entrepreneurship HUB. To explain, the institute has three main areas of focus: 1) Entrepreneurial Families: consulting services for 8<sup>th</sup> semester students with an established traditional enterprise; 2) Innovative Social Entrepreneurship HUB: support for students from any semester looking to develop a social enterprise; and 3) Tec Lean:

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<sup>96</sup> Ibid.

<sup>97</sup> "Boletín Nacional: 0814." EXATEC . Accessed November 2020.

<sup>98</sup> "Formación Que Transforma Vidas."

<sup>99</sup> Gress, Neil Hernández. "Research That Transforms Lives 2020," 2020

which focuses on traditional entrepreneurship<sup>100</sup>. The HUB, as well as a curricular program within the university's 'Tec21' model called Semester I, will be highlighted as programs with the potential to promote the development of social entrepreneurship in Mexico. As a disclaimer, while the Semester I program is not exclusive to social entrepreneurs, social enterprises have been formed through this program, providing an opportunity to highlight social entrepreneurship within the program.

I will now explain what the two programs are and how they help students become social entrepreneurs. Then, I will connect these programs back to the PEST analysis for a refined understanding of how Tec's approach to entrepreneurship overcomes many of the obstacles faced by the general public in Mexico.

### *Innovative Social Entrepreneurship HUB*

The Innovative Social Entrepreneurship HUB began in 2002 as Tec's version of a social entrepreneurship incubator. A social entrepreneurship incubator, in general, provides resources and guidance for the creation of an enterprise. Tec's incubator is an extracurricular program that provides students with a mentorship network, an organizational support team, and other resources that benefit rising social entrepreneurs and are all necessary components for creating an incubator. The HUB program follows a seven-month, seven-step model. Each month the students in the program are introduced to a module that will further the development of their social enterprise project. In time between being introduced to a new module, the students are guided in advancing their project by mentors and are invited to participate in conferences about starting a social enterprise. The following list provides a short description of the seven distinct modules.

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<sup>100</sup> Aguilar, Karla, and Alejandra G. Torres. Interview with Alejandra Gutiérrez Torres. Personal, June 16, 2020.

### 1. Social Entrepreneurship and Agency of Change

The students learn what it means to be a social entrepreneur, and what the common characteristics of a social entrepreneur are.

### 2. Defining the Social Issue

If the student has an idea they want to develop, then mentors work with them to correctly define the issue. If the student only knows that they want to develop a social enterprise, but they don't have a specific idea, then mentors help them form an idea. This typically involves choosing one or more of the 17 UN SDGs and finding a way to turn them into a proposed project.

### 3. Validating the Social Problems and Prototypes

The leaders of the HUB take the students enrolled in the program to an area in the countryside (near Mexico City), where the students have an opportunity to become sensitized to the true social problems that the people living in the community face each day and wish to change. In the region of Mexico City, there are three campuses that join together for this activity; this widens the students' social entrepreneurship community. After the trip, the students reevaluate their approach to solving the issue of their project, if necessary.

### 4. Designing an Impact Business Model

The students are tasked with creating a prototype, which is a model of what they want their final product to be. Before the prototype is tested, the students are asked to think about a *pretotype*, so that they can better understand the feasibility of creating their prototype. The end of this stage includes branding, which consists of deciding the name of the prototype and the enterprise, as well as the logo.

### 5. Financial Sustainability

Students learn about the resources and financial costs needed to successfully undertake the project. They are tasked with researching the production costs of their prototype, deciding the price of the product, figuring out who their target audience is, and the predicted impact that the project will have. Overhead costs must be taken into consideration. It is sometimes the case that in undertaking this module, the students realize that their project is financially unsustainable, and in the worst-case scenario, they are forced to abandon it.

#### 6. Measurement of Results and Impact

Students are asked to evaluate their projects after determining the best metrics that will measure both the outcome and the impact of the social enterprise.

#### 7. Narratives for Social Change

The entrepreneurs that fully developed their social enterprise through the incubation period, graduate the HUB program and develop their own narrative for social change. The entrepreneurs are ready to transition into the early-stage of development and then see the extent to which their enterprise can create change. This is not the case for all social enterprises because some fail or are abandoned before reaching this stage.

The HUB program is designed to take a student through the entire process necessary to develop a social enterprise. Along the way, the students receive support from mentors and professors. Once the program is complete, the projects that were most advanced are selected to partake in a Tec Lean funding exhibition to help them find investors that are willing to invest in a social enterprise. Only about 10-25% of the projects are selected for funding during an exhibition fair, but other options are available for funding such as competitions and conferences. The HUB coordinators find many opportunities for the social entrepreneurs to enter their projects for a chance to win funding. A few examples of past competitions and conferences attended by Tec

students are: Hult Prize, Enactus, Global Entrepreneurship Summer School, FLII, Santander Prize, and Eugenio Garza Sada Prize.

In 2019, of the 408 students that participated in social entrepreneurship projects across all Tec campuses, 183 sought out services from the Innovative Social Entrepreneur HUB<sup>101</sup>. Those projects were given the opportunity to take part in a variety of competitions with the intention of finding a method for financing. Of these, 96 projects were entered into at least one competition. This access to funding, among other aspects of the HUB, make it ideal an ideal environment for the creation of social enterprises.

### *Semester I*

Now, I shift my discussion away from the extracurricular HUB to talk about the curricular program in place that promotes social entrepreneurship. Tec recently incorporated a new model of education called Tec21<sup>102</sup>. In this model, students are presented with three phases of education: 1) exploration of a chosen field of study, 2) a greater focus on a specified major, and 3) specialization with personalized courses<sup>103</sup>. Progression through these phases occurs yearly as a student completes semesters in the university. During the last two years of a student's time at Tec, they are provided with an opportunity to shape their own learning experience by being allowed to take courses that they're passionate or curious about, which may not necessarily fall within the student's field of study. The implementation of this kind of curricular model was due to Tec's shift from a traditional form of learning (i.e. lectures and tests) to a modernized approach of learning —i.e., experiential learning—that creates well-rounded leaders<sup>104</sup>. The

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<sup>101</sup> "Data and Figures." Tecnológico de Monterrey, 2018.

<sup>102</sup> Gress, "Research That Transforms Lives 2020"

<sup>103</sup> Ibid.

<sup>104</sup> "Innovative Social Entrepreneurship." Tecnológico de Monterrey, 2018.

Tec21 approach to learning encourages students to develop the knowledge, skills, attitudes, and values needed to be successful in new and uncertain situations.

As part of this model, a program called *Semestre I* (Semester I) is available for students to apply to after completing their first two years at Tec. Semester I is a type of practicum experience headquartered in a Tec campus with a wide variety of projects available for students to sign up for. The projects that are available for the February-June 2021 academic semester relating to entrepreneurship include Innovative Entrepreneurship, Leadership for Social Development, and Concentration on Social Innovation: Encounters and Realities. They are found among six other multidisciplinary projects, which include a total of 50 projects that are proposed for the above-noted semester.

Semester I is a program that replaces a ‘normal’ semester of course work with courses specifically tailored to provide the knowledge necessary for any given student to successfully complete the project. In the case of multidisciplinary projects, teams are composed of students from any number of majors. For example, business students could form a team that included engineering students, or students from any other major, for that matter. Every student has access to a list of available projects on Tec’s website.

The purpose of each project varies; to get a better understanding of a single project, I will provide an example using the project titled *Concentration on Social Innovation*. This project is only available in Chiapas, Mexico, but accepts applications from all Tec campuses, including Mexico City. The purpose of this project is to address a social issue present within a vulnerable population in Chiapas. A group of approximately 15 students and the professor(s) live an immersive experience in an indigenous Chiapas community so as to better understand the challenges faced by the community and thereby, develop effective solutions using input from the

community itself. The ultimate goal is to create a positive social impact on the community by implementing the Semester I project. The project focused on four dimensions of social innovation: sustainable development, leadership, social economy, and innovation. Students will have hands-on experience in using social innovation and the knowledge from courses in *Creativity and Innovation for Solutions to Problems*, *Management of Social Projects*, and other similar classes to propose or provide an interdisciplinary solution to a real-world problem.

Semester I projects, in general, allow students to explore creative solutions to problem solving. The courses, briefly mentioned in the example above, serve as a backbone for the program. Similar to the HUB's seven modules, the courses for Semester I are presented as modules spread out through the semester to provide sufficient information for a project, and are evaluated by the professors assigned to the project based on the student's ability to advance the project utilizing the knowledge they've gained during the program. This method of evaluation is supposed to suppress the 'memorization' of knowledge and instead, allow the students to actually apply what they are learning. Additionally, professors do not actively lead the projects, but rather serve as a support system if the group is stuck on an issue or needs additional guidance, so that the professors do not stunt the students' ability to think creatively and innovatively on their own. The project has certain objectives that must be achieved by the end of the semester. Once those objectives are reached, the student groups must execute the project and/or present it to the company/community with which they were partnered with.

The Semester I program implements a real-world problem solving scenario so that students have access not only to the theoretical understanding of teachings, but also the ability to practice using that knowledge in an experimental way. A student who participated in a Semester



I project in the Spring semester of 2020 described it as “an educationally focused internship”<sup>105</sup>. This curricular program focuses less on the creation of an enterprise, but is still important in exposing students to social entrepreneurship, and the skills needed to undergo the creation of a project. The development of the project vaguely resembles the development of an enterprise, especially in the example I provided about the project in Chiapas.

Both the HUB and Semester I help Tec students overcome the obstacles from the PEST analysis in a variety of ways. In terms of the political factor, Tec has implemented an institution and established programs, such as Semester I, to increase the resources and attention dedicated to social entrepreneurship to fill the gap where the government has stopped. The Eugenio Garza Lagüera Entrepreneurship Institute oversees and advises the creation of programs for entrepreneurship for a central approach to delegate and oversee entrepreneurial programs.

The institute further provides students, professors, and alumni opportunities for funding the development of an enterprise to help overcome economic obstacles mentioned in the PEST analysis. This is done largely through a program called Tec Funding, which benefits students participating in the funding exhibition through the HUB program. This opportunity for funding is also one way that Tec addresses the economic factor of the PEST analysis. There are also opportunities for students to receive scholarships and to enter university-level competitions for entrepreneurs for further funding options. These sources of funding available to Tec students help channel sources of funding that are dispersed throughout Mexico, in a way that makes them more accessible to Tec students.

In terms of the social factor, Tec creates different communities within each entrepreneurship program it offers, while also developing a larger network nation-wide among

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<sup>105</sup> Aguilar, Karla, and Luis David. Interview with Luis David. Personal, November 6, 2020.

different campuses. The Semester I program is particularly critical for increased exposure of social entrepreneurship and social innovation to the students because they are given the opportunity to participate in projects that endeavor into the world of social entrepreneurship without a long-term commitment. This ‘trial run’ could be critical to students who have never otherwise considered social entrepreneurship to find a community that supports and promotes social entrepreneurial ideas. The networks further expand from student-student connections to consist of alumni, professors, and other members of the Tec community. There are even opportunities for students to branch out of the Tec-specific networks by participating in conferences and conventions offered through the HUB which allow networking with students from other universities and professionals from varying occupations.

Technologically, Tec has access to a large amount of resources due to the university’s status as ‘private’, as well as the fees it charges students to participate in these programs. Tuition fees tend to be around \$5000USD per semester while public universities charge as low as \$500 USD per semester<sup>106</sup>. The school is also recognized for its commitment to research with 801 research faculty in 2019, 5,281 publications between 2015-2019, and various areas of study including Social Innovation and Entrepreneurship and Innovation<sup>107</sup>. This generally situates the students among other university students in Mexico as generally financially well-off and with access to a plethora of resources. For this reason, investigations for HUB and Semester I programs are able to take advantage of a faculty with many areas of expertise and intellectual curiosity, as well as the digital tools (i.e., computers, Wi-Fi, and website access) in order to conduct their own individual research on how to solve social issues. Since Semester I is a

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<sup>106</sup> Monroy, Carlos, and Stefan Trines. “Education in Mexico.” WENR, May 23, 2019.

<sup>107</sup> Gress, “Research That Transforms Lives 2020”

curricular program, having access to resources provided by the school is especially crucial in terms of the successful completion of a given project.

The HUB and Semester I are not mutually exclusive; it is possible for a student to participate in both, and experience slightly different approaches to entrepreneurship. The Semester I program also extends the community that Tec impacts by working with companies and communities outside of the student and faculty networks present within Tec. If Tec were to increase the quantity of social innovation programs offered, there would be potential for an even greater impact on the country from Semester I projects alone. Now that two of the many programs Tec offers for (social) entrepreneurship have been analyzed, we will look at some research that has suggested why and how entrepreneurship education is beneficial to students.

#### *Support for Entrepreneurship Education*

Education alone cannot be tasked to solve social issues in a society. However, it can be used as a way to implement programs that allow students to actively learn how to interact with the world around them<sup>108</sup>. An entrepreneurship education teaches students the impact they can have on the society around them while providing a learning culture centered around entrepreneurship which they might otherwise not have been exposed to. Through education, it is possible to reinforce an entrepreneurial culture in society that can resonate beyond the educational setting.

As defined by Azqueta, an entrepreneurship education is “an educational focus that enhances entrepreneurial potential in students and contributes to their all-round growth”<sup>109</sup>. This type of education not only places an emphasis on students’ social and professional development,

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<sup>108</sup> Azqueta, Arantxa, and Concepción NAVAL. "Educación Para El Empeñamiento - Entrepreneurship Education: Una Propuesta Para El Desarrollo Humano." *Revista Española De Pedagogía* 77, no. 274 (2019): 517-34.

<sup>109</sup> Ibid.

but also on their intellectual, social, and moral development. Combining all three dimensions—educational, societal, and individual—gives students the skills necessary to take part in an economic environment that is increasingly learning to value the people who have the intellectual skills to adapt to a changing world (Figure 6). This balance among all dimensions helps social entrepreneurs learn better ways to approach situations of need, where a typical business approach might appear too assertive and invading<sup>110</sup>. Tec's approach to developing these skills in the HUB occurs in module three, where students are placed in a community and asked to determine how to resolve a social issue (i.e., lack of access to education). By doing this, students develop a greater ability to communicate with the community because they understand that the best way to resolve the issue is by working *with* the community instead of *for* the community.

*Figure 6: Dimensions of a Person and Indicators of Entrepreneurial Competence*

Intellectual dimension	Social Dimension	Moral Dimension
<b>Imagination</b>	<b>Communication</b>	<b>Autonomy</b>
<b>Creativity</b>	<b>Sociability</b>	<b>Responsibility</b>
<b>Innovation</b>	<b>Service</b>	<b>Self-Awareness</b>
<b>Resolving Problems</b>	<b>Working in Teams</b>	<b>Making Decisions</b>
<b>Searching for</b>	<b>Solidarity</b>	<b>Critical Capacity</b>
<b>Incentive</b>	<b>Social Cooperation</b>	<b>Ethical Thinking and</b>
<b>Willingness to Achieve</b>		<b>Leadership</b>

Source: adapted and translated from Azqueta and Naval, "Educación Para El Emprendimiento"

Some scholars agree that social entrepreneurship exists with complexity and variation that can prove difficult to teach in a single course. This is largely due to the fact that social

<sup>110</sup> Worsham, Erin L., and J. Gregory Dees. "Reflections and Insights on Teaching Social Entrepreneurship: An Interview With Greg Dees." *Academy of Management Learning & Education* 11, no. 3 (2012): 442-52.

entrepreneurship is interdisciplinary and can prompt different objectives depending on the approach along the social entrepreneurship spectrum<sup>111</sup>. For this reason, a project in Tec's Semester I offers the unique opportunity needed for students to collaborate with other students across different fields of study in order to achieve a common objective. The orientation of this program toward a greater focus on social entrepreneurship could reduce the tendency that a lot of institutions have to blend the market-approach to entrepreneurship<sup>112</sup>.

Another key element of social entrepreneurship that should not be confused with that of a traditional enterprise is value creation. In Mexico, this is especially important when trying to produce efforts that address the most fundamental challenges that the country faces. It can be the case that institutions do not provide a model of social entrepreneurship that is distinct enough from the model used in teaching the theory of traditional entrepreneurship to the extent that students don't learn how to accurately consider all of the economic, social, and environmental factors that could be impacted by a social enterprise<sup>113</sup>. In both the HUB and Semester I programs, the students are challenged to think about the social issues they want to address as being related to the SDGs, knowing that finding a way to alleviate the issues resulting in an SDG will have implications that extend beyond the economy. What this does cause, however, is a constant expression of the "demand-side perspective" of entrepreneurship, which focuses on identifying an issue and finding a way to resolve it through resources and ideas that arise as a secondary thought<sup>114</sup>. This might inhibit the creativity of projects by not encouraging students to,

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<sup>111</sup> Mars, Matthew M., and Cecilia Rios-Aguilar. "Academic Entrepreneurship (re) Defined: Significance and Implications for the Scholarship of Higher Education." *Higher Education* 59, no. 4 (2010): 441-60.

<sup>112</sup> *Ibid.*

<sup>113</sup> *Ibid.*

<sup>114</sup> *Ibid.*

instead, analyzing the environment in which they live and finding a way to create social value that had not yet existed.

## Chapter 5: Conclusion

My thesis suggests that social entrepreneurship can be a method for addressing obstacles to socioeconomic development in Mexico, and that universities would be good vehicles for the promotion of social entrepreneurship as a means to drive that development. Universities like Tec provide a system for the education of social entrepreneurs, financing opportunities, a community of mentors and like-minded students, and resources that might otherwise be unavailable to the would-be entrepreneurs. It is my belief that students are capable of proposing innovative ideas for change, and if given the proper tools, those ideas can make a difference in society. I realize that there are a variety of factors that have been left out of consideration given the constraints of this thesis, but hopefully further exploration of the subject will follow.

To determine that social entrepreneurship can and has promoted socioeconomic development by addressing poverty and clean water and sanitation, this thesis relied on two case studies—Pixza and Isla Urbana. In detailing poverty and clean water as obstacles to socioeconomic development, I revealed that the government's attempts to overcome those obstacles in the past have not been 100% effective. While it is difficult to find one simple solution to persisting issues such as these, I proposed that social entrepreneurship could serve to form enterprises that supplement efforts currently in place meant to address these obstacles. As I conducted my research, I noticed that much of my research identified a lack of available data on the subject of social entrepreneurship in Mexico. For this reason, I relied on support from the theory of social entrepreneurship and two case studies to convey the effectiveness of social enterprises. With more space to explore this idea, I would have liked to have looked into the shortcomings of social enterprises and how prominent the impacts of such enterprises have been in the grand scheme of the country's development.

In my investigation of how universities are plausible solutions to overcoming obstacles to the creation of social enterprises in Mexico, I did a PEST analysis and studied Tec's educational system for entrepreneurs. The PEST analysis revealed some of the many political, economic, social, and technological obstacles to the creation of a social enterprise, but it was limited for the purpose of providing an overview of obstacles faced by Mexico. The general overview of the obstacles was essential to propose that the university solution could address those obstacles through curricular and non-curricular programs. Tec, operating in a private university, is particularly well-resourced and does not reflect a similar potential for public universities to promote social entrepreneurship, given the general lack of such resources. The purpose of using Tec to propose the university approach was its potential to showcase programs that other universities could strive to incorporate in the future. Entrepreneurship education, in general, increases the intellectual, moral, and social growth of students by providing opportunities to develop skills not acquired through a general classroom learning experience.

Overall, I would say that this thesis is most significant in proposing that third world countries can benefit from the traditionally western concept of social entrepreneurship, given the right mix of education, funding opportunities, and the presence of a supportive mentor community. There is a gap in the research of social entrepreneurship thus that specifically focuses on social entrepreneurship in developing countries, even though such countries stand to benefit greatly from citizens taking an active approach to provide sustainable solutions to political, social, and economic issues that have not been resolved by the government and other organizations. For this reason, I recommend further research into the motivation behind citizens' interest in social entrepreneurs and case studies providing examples of social enterprises in Mexico.



### *Case Study (Illustrative)*

To illustrate an example of a social enterprise created by students from Tec, I have conducted a case study with the founders of Gamex. A co-founder of Gamex, Patricio Heredia, agreed to an extensive interview about his experiences at Tec. The following case is an illustration of one social enterprise's formation in Mexico, and how Tec provided support for the development of the social enterprise through both the Innovative Social Entrepreneurship HUB and Semester I programs.

#### What is Gamex?

Gamex is an educational video game available on smartphones and tablets with an objective to motivate and educate kids on how to develop healthy habits—including eating healthy, exercising regularly and sleeping well. The key to motivating kids is the reward system built into the app. By eating healthy, exercising, and sleeping well, kids can earn prizes such as movie tickets, Amazon gift cards, tickets to Six Flags, video game consoles, and more.

The points are tracked using a smart bracelet (like a Fitbit) which tracks steps, cardiac rhythm, calories burned, and sleep time. The bracelet is synched with the Gamex app, and awards points based on the tracking system. To play the games in the app, 'energy' is needed. Energy to play the game is translated into points, which are earned through physical activities and other healthy habits. If a kid runs out of 'lives', he needs to do more exercise in order to resume playing the game. A new model of the game that has been worked on during COVID-19 quarantine allows users to compete with others on a leaderboard that resets weekly.

The game has a storyline that includes a heroic theme and the defeat of villains at different levels of the game. This structure of the game allows the social enterprise to set up lessons that teach kids how to steer clear of poor health habits. There are 10 "worlds"—levels of

the game—which each symbolize a bad habit. For example, in World 1, the game is centered around a villain that represents laziness, and in World 2 the villain is a characterization of junk food. There are also ‘mini-tasks’ within the game that teach kids about nutrition (i.e. carbohydrates, sugars, fibers, etc.), and rewards them with virtual coins and gems that allow a user to personalize their avatar. The game attempts to create a parallel between the avatar and the user, so that the user learns that well-being in the real world translates to well-being of their avatar.

### Creation of Gamex

Gamex was created as a social enterprise with the purpose of combating an issue that is present both in Mexico and worldwide, which is that of a sedentary lifestyle (*sedentarismo*) or better understood as the lack of physical exercise. Heredia and his team acknowledge the prevalence of this issue among children, citing that 83% of the kids in Mexico live a sedentary lifestyle. For this reason, their target audience centered on children. Identifying the lack of physical activity among kids was a decisive factor in shaping the development of the social enterprise.

Heredia admits that, as a child, he did not participate in any form of physical exercise. His experience, like that of many other kids, includes an addiction to the games that could not be interfered by anything else. This led Heredia to be diagnosed with obesity at the young age of six years old. At that point in his life, Heredia was not only suffering from health problems due to his obesity, but also from bullying that accompanied his physical appearance of being overweight. As he grew older, he realized the impact that nicknames like “piggy” or “fatty” had on him in a profoundly personal and mental way. As a result, he began to lose confidence and became an introvert.

Everything changed for Heredia when he began to play sports in middle school. He made friends, became healthier, regained confidence, and eventually even earned a scholarship to Tec. Once he became a student at Tec, he became attached to an idea promoted by the university known as the *la hipoteca social* (“social mortgage”). As Heredia explained it, social mortgage is the idea that it is the responsibility of people who have access to certain opportunities to take actions so that other people can have similar opportunities. In this case, Heredia was referencing the ability to change a person’s life with sports and exercise as he was able to do. He reasons that of the 83% of kids that live a sedentary lifestyle in Mexico most, if not all, of them might have experiences similar or worse than he did. Additionally, sports and other such activities have also been known to keep kids from alternative lifestyles involving drugs, gang-related activity, and other such behaviors. This story was the beginning of the creation of Gamex.

Heredia studied entrepreneurship at Tec; therefore, much of his course work over his four years at Tec revolved around the creation and development of businesses. He also took part in Semester I and the Innovative Social Entrepreneurship HUB programs, which he claims greatly helped him advance his business idea and develop the social enterprise.

One of the most impactful ways that the Semester I affected the development of Gamex was through the exposure to national and international competitions for funding. The company won a regional Business Model Competition, and went on to participate in the International Business Model Competition. Tec helped pay for the team’s travels to the competition, and the mentors from the program helped the team perfect the business pitch. Other beneficial resources Tec provided the team were legal advice and social entrepreneurship networks.

One reason that Heredia really appreciated Tec’s support in the development of Gamex is that he felt that the professors and faculty never completely abandoned the students. The students

had a chance to experiment with their entrepreneurial endeavors, but they know that the faculty and professors are ready to back them up. This allowed Heredia, and other students to form strong relationships with certain members of Tec.

The HUB provided the entrepreneurs with a community; Heredia and his team now mentor other students hoping to launch their own businesses. This community aspect is greatly admired by Heredia and his team because of the varied support received from others. Knowing that entrepreneurial ventures are complicated and largely uncertain, it is nice to know that there is a community of people going through similar challenges. Additionally, the entire Gamex team praised the involvement of the HUB staff members in their success. The team claims that the HUB incubator had endless support as the project was taken from its final form in the Semester I program to a more accelerated program that would provide a different source of input and tuning for the social project.

Another one of Gamex's co-founders, José Enrique Aguilera, mentioned that he joined the social enterprise project because he believed in it after hearing a pitch for the project as a potential Semester I project to join. Aguilera did not have personal experience, like Heredia's, tying him to the project, and yet he found the motivation and desire to join the team from the financial aspect of the business. The act of marketing Semester I projects not only introduced Aguilera and other students to the possibility of working to develop a social enterprise, but also generally increased the awareness of social projects. If it were not for that presentation of a social entrepreneurship project, Aguilera believes that his future would have been different, and he would've taken a traditional job in a bank rather than working to develop a project he is now immensely proud of.

When asked about wanting to leave Mexico to try and find success for his business in U.S. markets, or other international locations, Heredia said that the Gamex team had considered it. However, they came to the agreement that Mexico has a lot of problems that need to be addressed. Heredia also noted the significance of more entrepreneurs needing to believe in the country, and become involved in a way that truly makes an impact before thinking about trying their product elsewhere. He, further, reasons that one explanation for why entrepreneurs leave their country is because the tax rates in Mexico are higher than those of some states in the U.S. Another reason is that many people have suggested that there is a bigger market for many products in the U.S. or in Canada. While those may be true, the primary goal of this enterprise is to make a difference in Mexico and then address other developing countries in Latin America. Their nationalistic pride triumphs over their fear of failing in Mexico and fleeing to another country, so Gamex will continue to strive to produce a positive impact on the country.

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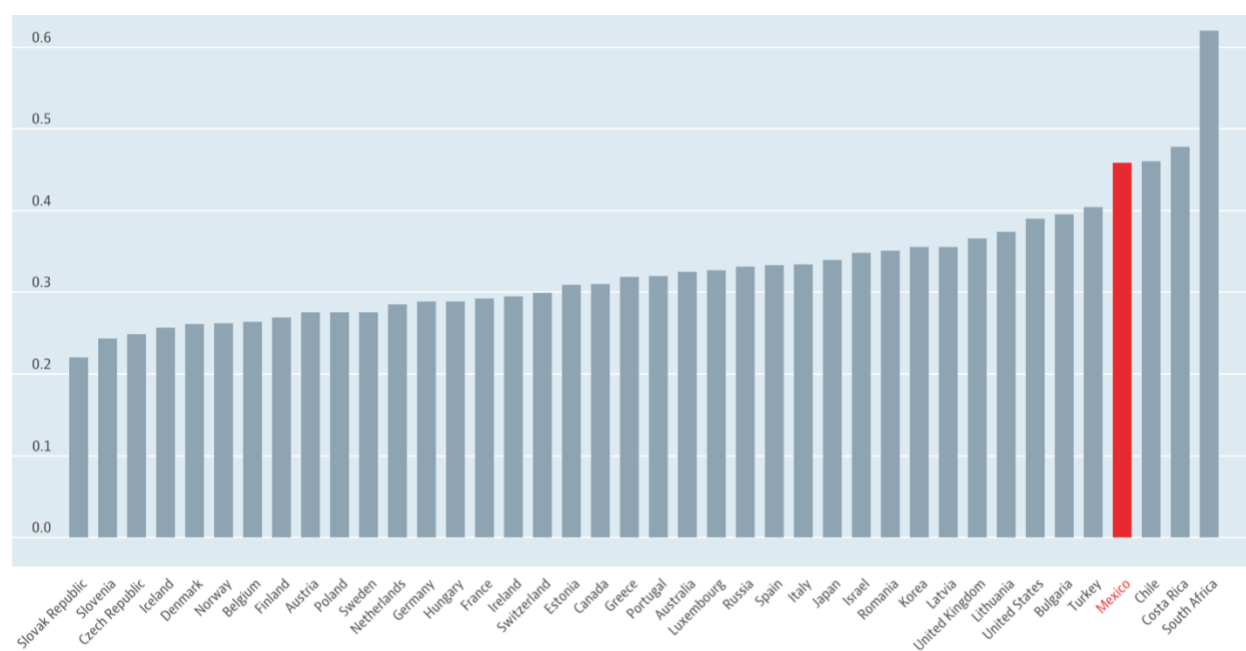
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## Appendix A

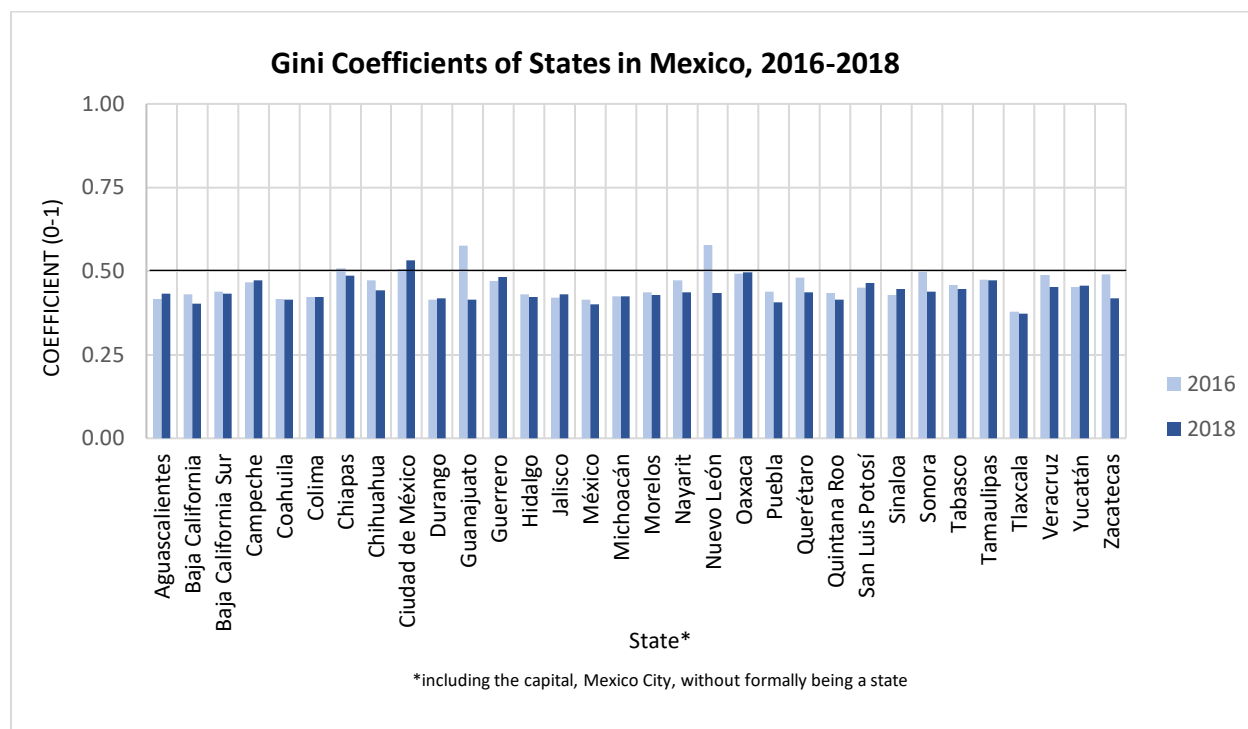
**Income Inequality measured by Gini Coefficient, 0 = complete equality; 1 = complete inequality, 2015-2019**



Source: own elaboration from “Income inequality (indicator)”. OECD, 2020. doi: 10.1787/459aa7f1-en.

## Appendix B

### Gini Coefficients for States in Mexico in 2016 and 2018



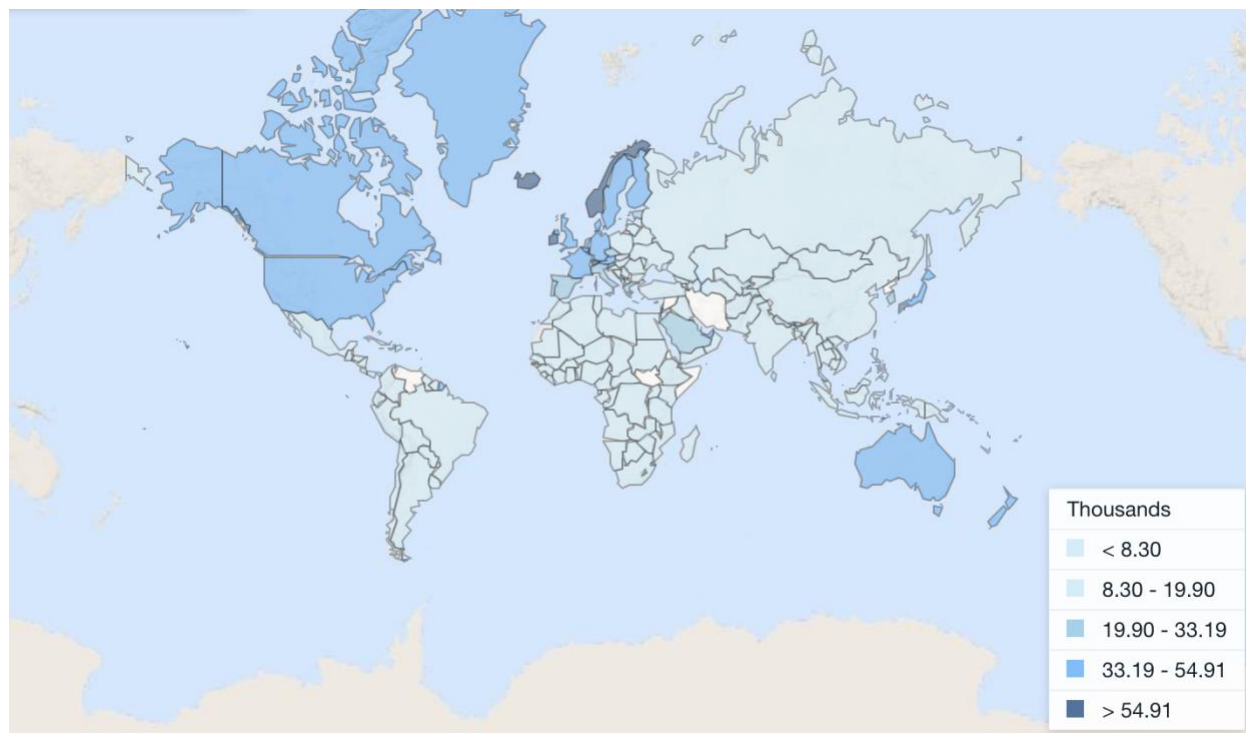
Source: own elaboration of “Anexo Estadístico Entidades 2008-2018,” 2019.

[https://www.coneval.org.mx/odt/UAAP/ME/Documents/Anexo estadístico entidades 2008-2018.zip](https://www.coneval.org.mx/odt/UAAP/ME/Documents/Anexo_estadístico_entidades_2008-2018.zip).



## Appendix C

**Map of the World According to GDP Per Capita in USD (2018)**



Source: "GDP per Capita (Current US\$) - Mexico." World Bank Data. November 2020.

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## Appendix D

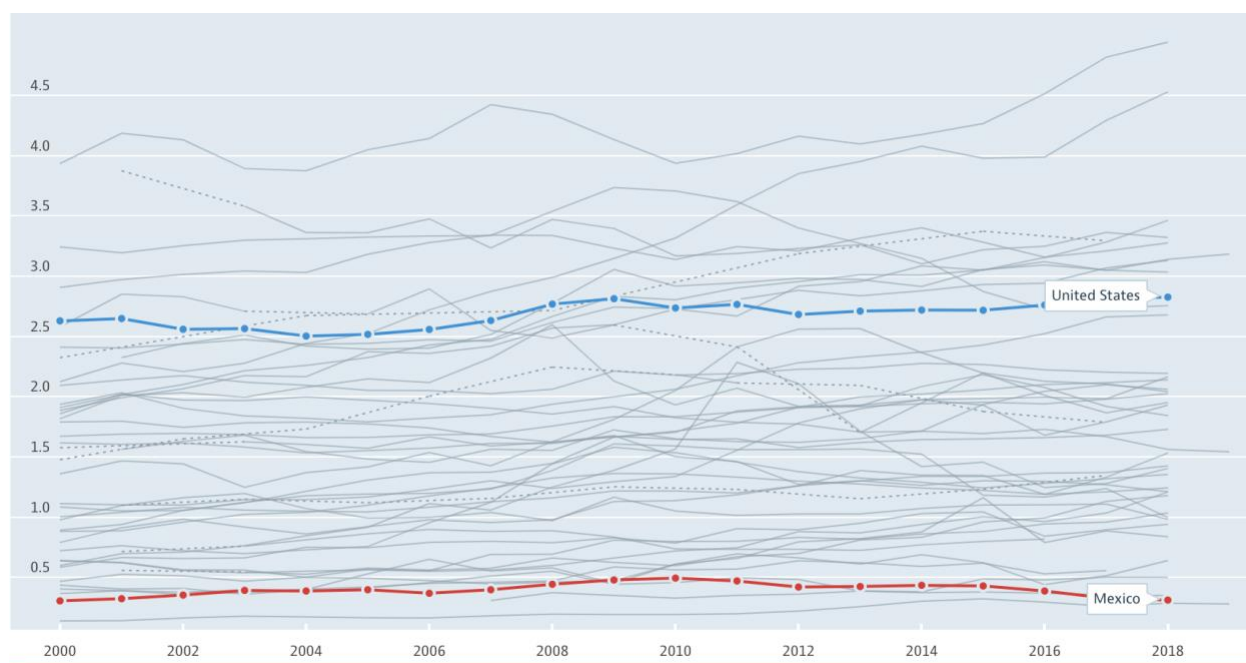
### Summary of Some Grants Offered by the National Entrepreneur Institute (INADEM)

<b>Grant Name</b>	<b>Strengthening Business incubators and non-traditional incubation schemes</b>	<b>Encourage Entrepreneurs and Enterprises through the High Impact Entrepreneurship Program</b>
<b>Target</b>	Traditional and High Impact Business Incubators accepted by <i>INADEM</i> , Transition Incubators and Entrepreneurs under non-traditional incubation schemes	Entrepreneurs, Micro, Small and Medium Enterprises
<b>Aim</b>	Support the establishment of competitive and innovative enterprises	Support entrepreneurs and MSMEs which have high impact projects, in order to achieve a link between those projects and investment vehicles or financing schemes to enhance their successful expectations and impact level
<b>Amount</b>	Up to 593,000 USD per incubator	Up to 370,000 USD per enterprise

Source: “Study of Social Entrepreneurship and Innovation Ecosystems in the Latin American Pacific Alliance Countries,” 2016. <https://publications.iadb.org/publications/english/document/Study-of-Social-Entrepreneurship-and-Innovation-Ecosystems-in-the-Latin-American-Pacific-Alliance-Countries-Country-Analysis-Mexico.pdf>.

## Appendix E

### Gross Domestic Spending on R&D Total, % of GDP, 2000 – 2019



Source: "Gross Domestic Spending on R&D." OECD, 2020. doi: 10.1787/d8b068b4-en.

Karla Aguilar was born in Austin, Texas on September 6<sup>th</sup>, 1998 to a family of immigrants. She enrolled in the Plan II Honors program at the University of Texas at Austin in 2017, with a double major in Accounting, with the hope of taking advantage of the opportunities available in the U.S. In college, she studied abroad three times—in Cape Town, Madrid, and Queretaro—to explore her individuality and the world around her. In the spring of 2021, Karla will be an International Tax intern at Deloitte. She will graduate in 2021 with two degrees, and plans to finish her Master's in Professional Accounting the following year.